The Economist

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# Unhappy America

# Print Edition July 26th 2008

**Unhappy America**

If America can learn from its problems, instead of blaming others, it will come back stronger: leader

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## International







## Economic and Financial Indicators

# Politics this week

Jul 24th 2008
From The Economist print edition

Reuters

**Radovan Karadzic**, the Bosnian Serb wartime leader, was arrested in Belgrade. He is likely to be sent to The Hague war-crimes tribunal and tried on charges of genocide and crimes against humanity; he was indicted 13 years ago. The arrest was widely welcomed, and celebrated in Sarajevo, the Bosnian capital; Serb nationalists protested. The European Union promised to step up its co-operation with Serbia. See article

Ukraine invited **Orthodox Christian** leaders from around the world to celebrate the country's conversion to Christianity. The event promised to be a make-or-break moment in relations between Orthodoxy's rival prelates. Separately, **Anglican leaders** met in the hope of averting a global rift between liberals and conservatives, mainly over homosexuality. See article

**Bulgaria** and **Romania** were criticised in European Commission reports for their inadequate efforts to combat corruption; Bulgaria was also punished by having the money it receives from the commission cut. The tone of the two published reports was softer than their first drafts. See article

Spanish police arrested nine suspected members of ETA, the **Basque** separatist group. The arrests came soon after a series of bomb attacks along Spain's northern coast, blamed on ETA terrorists.

**Italy's parliament** approved a controversial law giving four senior officials immunity from prosecution, including the prime minister, Silvio Berlusconi. The law still has to be signed by the president; it is likely also to be challenged in the constitutional court.

## Little steps

**Zimbabwe's** president, Robert Mugabe, shook hands with the opposition leader, Morgan Tsvangirai, at their first meeting in a decade. They signed an agreement to negotiate a political settlement within two weeks, mediated by South Africa and others. A breakthrough was hailed, but the timetable looks optimistic and the outcome unclear. See article

**Sudan's** president, Omar al-Bashir, made a rare visit to the country's Darfur region to signal his defiance of the International Criminal Court, whose chief prosecutor has accused him of orchestrating genocide there. The African Union and the Arab League supported Mr Bashir's rejection of outside interference.

In a change of American policy, a senior American diplomat joined representatives of Britain, China, France, Germany and Russia in talks with **Iran** in Geneva without the Islamic Republic first agreeing to suspend its enrichment of uranium. The Iranian government paid a rare compliment to America by commending its diplomat for showing "respect", but it still refused to freeze its enrichment programme in return for a freeze of economic sanctions imposed on Iran.

## Postcards from the edge

Getty Images

**Barack Obama** embarked on a fact-finding foreign-policy expedition. The Democratic presidential candidate's itinerary took him to Kuwait, Afghanistan, Iraq, Jordan, Israel and the Palestinian West Bank. He also went to Germany to give a big speech in Berlin and was due to visit France and Britain. He was accompanied by what seemed like half of America's press corps, including three TV anchors, who deemed his tour a success. See article

Mr Obama stood by his policy of wanting to set a timetable for withdrawing

troops from **Iraq**, which the Iraqi prime minister, Nuri al-Maliki, welcomed. Earlier, Mr Maliki and George Bush agreed to a less specific "general time horizon" for American forces to leave. See article

The presidential candidates released their **fund-raising** figures for June. Mr Obama raked in a whopping $54m and John McCain an unwhopping $22m. However, the Republican National Committee continued to raise bucketloads more than its Democratic counterpart, money which it will spend on helping Mr McCain.

Osama bin Laden's former driver, Salim Ahmed Hamdan, went on trial before a **military commission**, four years after his original hearing was halted because of legal wrangling over the status of prisoners at Guantánamo Bay.

## Goodwill gesture

**India's** coalition government, which is led by the Congress party, survived a confidence vote in Parliament, clearing the way for it to try to finalise a controversial agreement on civil-nuclear co-operation with America. But its triumph was tainted by allegations that it and its allies bribed members of parliament to back it with various inducements, including wads of banknotes. See article

At its annual foreign ministers' meeting, the Association of South-East Asian Nations (ASEAN) called in unusually blunt terms for **Myanmar**, one of its members, to release Aung San Suu Kyi, the leader of the opposition, and other political prisoners. A report released at the meeting said that reconstruction work in Myanmar after Nargis, the cyclone that hit in March, will require at least $1 billion. See article

In bilateral talks at the meeting, **Thailand** and **Cambodia** made no progress on their dispute over the Preah Vihear temple on their border. Both sides have sent thousands of troops to the area. Cambodia has asked the UN Security Council to convene an emergency meeting on the dispute.

Also in the margins of the ASEAN meeting, Condoleezza Rice, America's secretary of state, attended six-party talks on **North Korea's** nuclear programme, her first such meeting for four years.

In Beijing, **Russia** and **China** signed an agreement covering their last outstanding dispute over their border, covering two riverine islands that nearly sparked a war in 1969. See article

**Nepal's** Maoists, the largest party in the assembly elected in April, suffered a setback when their candidate for the presidency was defeated by Ram Baran Yadav, of the Nepali Congress party. Some Maoist officials said the party may now abandon its effort to lead a government. See article

## Peace walkers

Reuters

More than 1m people participated in **Colombia's** biggest-ever marches against kidnapping, three weeks after Ingrid Betancourt, the FARC guerrillas' most famous hostage, was released.

**Venezuela's** president, Hugo Chávez, floated the idea of an alliance with Russia against America, and also said that he wanted to hug the king of Spain.

# Business this week

Jul 24th 2008
From The Economist print edition

**Roche**, a Swiss pharmaceutical company, made an offer of $44 billion for the 45% of shares it does not already own in **Genentech**, a Californian firm. If successful, the deal will be the biggest ever in the biotechnology industry. Genentech's treatment for cancer, Avastin, is expected to become the world's bestselling drug over the next few years.

The wave of consolidation in the generic-drug industry continued. **Teva**, an Israeli company that is the biggest in the business, agreed to buy **Barr**, based in New Jersey, for almost $7.5 billion. See article

## If you can't beat 'em...

**Yahoo!** gave seats on its board to **Carl Icahn** and two of his allies, so avoiding a proxy fight with the activist investor at its general meeting on August 1st. Mr Icahn, who owns 5% of the internet company, had nominated his own slate of directors and called for Jerry Yang to step down as chief executive after talks with Microsoft over its takeover bid fell apart. See article

Congress reached agreement on a bill designed to alleviate some of the pain in the housing market. The bill includes a rescue plan for **Fannie Mae** and **Freddie Mac** that would give the Treasury authority to provide the government-backed mortgage giants with new financing in the form of loans or equity. The Congressional Budget Office estimated that the cost of bailing out Fannie and Freddie was likely to be $25 billion, though it also said there was a good chance that the proposed new authority would not be used.

More banks reported quarterly earnings. Those in the red included **Wachovia**, which made an $8.9 billion loss and took $6.1 billion in write-downs; **Washington Mutual**, with a loss of $3.3 billion and net write-downs of $2.2 billion; and Ohio's **KeyCorp**, a $1.1 billion loss. There were some brighter spots. **Bank of America** made a $3.4 billion profit, and **Credit Suisse** made SFr1.2 billion ($1.2 billion). Although the profits of both these banks were much lower than a year ago, they were still better than had been expected.

An emergency rights issue by **HBOS** was a flop: only 8.3% of the British bank's shares were taken up by investors. The offer's two main underwriters, Morgan Stanley and Dresdner Kleinwort, found buyers to bring the take-up to 38%, but were left holding the rest. Morgan Stanley surprised markets by declaring it had taken a sizeable short position in HBOS's stock.

**Tokio Marine**, a Japanese insurer, offered $4.7 billion for **Philadelphia Consolidated**. It is said that this would be the biggest-ever Japanese acquisition of an American financial-services company.

**Amazon's** second-quarter sales surged by 41% compared with a year ago. The zeal for the online retailer's discounted goods may have been boosted by the economic downturn.

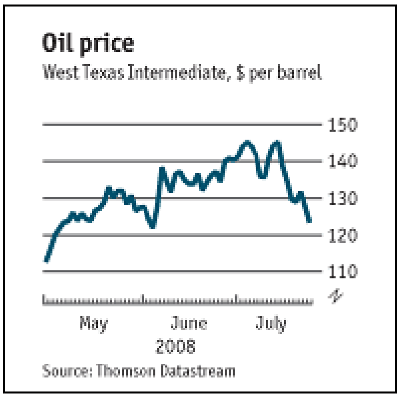
**General Motors** said it sold 4.5m vehicles around the world in the first half of the year. **Toyota** sold 4.8m and is expected to overtake GM as the world's biggest carmaker this year. Toyota came a narrow second to GM in 2007.

## Temporary respite?

The **price of oil** continued to fall back from recent highs. One contributing factor was Hurricane Dolly. Markets had feared that Dolly might disrupt production in the Gulf of Mexico, but the storm missed the oilfields before bearing down on Texas.

**AT&T's** quarterly income rose by 30% compared with a year ago. It gained a net 1.3m new wireless subscribers, helping to offset a sharp drop

in fixed-line customers. Other telecoms companies did not fare so well. **Ericsson's** quarterly profit fell by 70%, partly because of a poor performance in its all-important networks business. And **Vodafone's** share price plummeted after it said it expected revenue for the year to be towards the bottom of its outlook range.




The merger of India's **Reliance Communications** and **MTN**, a South African wireless operator, was called off because of a feud between Anil Ambani, owner of the Indian company, and his brother Mukesh. The Ambanis divided the Reliance group between them after their father died six years ago. See article

## Rich food, and wine

Unilever sold its **Bertolli** olive oil business to Spain's **Grupo SOS** for €630m ($1 billion). Founded in the Tuscan town of Lucca in 1865, Bertolli is one of the bestselling brands of olive oil. People are consuming more of the stuff because of the related health benefits, such as lower cholesterol.

Chateau Montelena, a Napa Valley vineyard that helped bring **Californian wines** to the world's attention, agreed to a buy-out from Michel Reybier, one of France's top vintners. Montelena took part in the famed Judgment of Paris in 1976, at which French judges awarded the top prizes to wines from the Golden State.

# KAL's cartoons

Jul 24th 2008
From The Economist print edition

Illustration by Kevin Kallaugher

# Unhappy America

Jul 24th 2008
From The Economist print edition

**If America can learn from its problems, instead of blaming others, it will come back stronger**

NATIONS, like people, occasionally get the blues; and right now the United States, normally the world's most self-confident place, is glum. Eight out of ten Americans think their country is heading in the wrong direction. The hapless George Bush is partly to blame for this: his approval ratings are now sub-Nixonian. But many are concerned not so much about a failed president as about a flailing nation.

One source of angst is the sorry state of American capitalism (see article). The "Washington consensus" told the world that open markets and deregulation would solve its problems. Yet American house prices are falling faster than during the Depression, petrol is more expensive than in the 1970s, banks are collapsing, the euro is kicking sand in the dollar's face, credit is scarce, recession and inflation both threaten the economy, consumer confidence is an oxymoron and Belgians have just bought Budweiser, "America's beer".

And it's not just the downturn that has caused this discontent. Many Americans feel as if they missed the boom. Between 2002 and 2006 the incomes of 99% rose by an average of 1% a year in real terms, while those of the top 1% rose by 11% a year; three-quarters of the economic gains during Mr Bush's presidency went to that top 1%. Economic envy, once seen as a European vice, is now rife. The rich appear in Barack Obama's speeches not as entrepreneurial role models but as modern versions of the "malefactors of great wealth" denounced by Teddy Roosevelt a century ago: this lot, rather than building trusts, avoid taxes and ship jobs to Mexico. Globalisation is under fire: free trade is less popular in the United States than in any other developed country, and a nation built on immigrants is building a fence to keep them out. People mutter about nation-building beginning at home: why, many wonder, should American children do worse at reading than Polish ones and at maths than Lithuanians?

## The dragon's breath on your shoulder

Abroad, America has spent vast amounts of blood and treasure, to little purpose. In Iraq, finding an acceptable exit will look like success; Afghanistan is slipping. America's claim to be a beacon of freedom in a dark world has been dimmed by Guantánamo, Abu Ghraib and the flouting of the Geneva Conventions amid the panicky "unipolar" posturing in the aftermath of September 11th.

Now the world seems very multipolar. Europeans no longer worry about American ascendancy. The

French, some say, understood the Arab world rather better than the neoconservatives did. Russia, the Gulf Arabs and the rising powers of Asia scoff openly at the Washington consensus. China in particular spooks America—and may do so even more over the next few weeks of Olympic medal-gathering. Americans are discussing the rise of China and their consequent relative decline; measuring when China's economy will be bigger and counting its missiles and submarines has become a popular pastime in Washington. A few years ago, no politician would have been seen with a book called "The Post-American World". Mr Obama has been conspicuously reading Fareed Zakaria's recent volume.

America has got into funks before now. In the 1950s it went into a *Sputnik*-driven spin about Soviet power; in the 1970s there was Watergate, Vietnam and the oil shocks; in the late 1980s Japan seemed to be buying up America. Each time, the United States rebounded, because the country is good at fixing itself. Just as American capitalism allows companies to die, and to be created, quickly, so its political system reacts fast. In Europe, political leaders emerge slowly, through party hierarchies; in America, the primaries permit inspirational unknowns to burst into the public consciousness from nowhere.

Still, countries, like people, behave dangerously when their mood turns dark. If America fails to distinguish between what it needs to change and what it needs to accept, it risks hurting not just allies and trading partners, but also itself.

## The Asian scapegoat

There are certainly areas where change is needed. The credit crunch is in part the consequence of a flawed regulatory system. Lax monetary policy allowed Americans to build up debts and fuelled a housing bubble that had to burst eventually. Lessons need to be learnt from both of those mistakes; as they do from widespread concerns about the state of education and health care. Over-unionised and unaccountable, America's school system needs the same sort of competition that makes its universities the envy of the world. American health care, which manages to be the most expensive on the planet even though it fails properly to care for the tens of millions of people, badly needs reform.

There have been plenty of mistakes abroad, too. Waging a war on terror was always going to be like pinning jelly to a wall. As for Guantánamo Bay, it is the most profoundly un-American place on the planet: rejoice when it is shut.

In such areas America is already showing its genius for reinvention. Both the Republican and Democratic presidential candidates promise to close Guantánamo. As his second term ticks down, even Mr Bush has begun to see the limits of unilateralism. Instead of just denouncing and threatening the "axis of evil" he is working more closely with allies (and non-allies) in Asia to calm down North Korea. For the first time he has just let American officials join in the negotiations with Iran about its fishy nuclear programme (see article).

That America is beginning to correct its mistakes is good; and there's plenty more of that to be done. But one source of angst demands a change in attitude rather than a drive to restore the status quo: America's relative decline, especially compared with Asia in general and China in particular.

The economic gap between America and a rising Asia has certainly narrowed; but worrying about it is wrong for two reasons. First, even at its present growth rate, China's GDP will take a quarter of a century to catch up with America's; and the internal tensions that China's rapidly changing economy has caused may well lead it to stumble before then. Second, even if Asia's rise continues unabated, it is wrong—and profoundly unAmerican—to regard this as a problem. Economic growth, like trade, is not a zero-sum game. The faster China and India grow, the more American goods they buy. And they are booming largely because they have adopted America's ideas. America should regard their success as a tribute, not a threat, and celebrate in it.

Many Americans, unfortunately, are unwilling to do so. Politicians seeking a scapegoat for America's self-made problems too often point the finger at the growing power of once-poor countries, accusing them of stealing American jobs and objecting when they try to buy American companies. But if America reacts by turning in on itself—raising trade barriers and rejecting foreign investors—it risks exacerbating the economic troubles that lie behind its current funk.

Everybody goes through bad times. Some learn from the problems they have caused themselves, and come back stronger. Some blame others, lash out and damage themselves further. America has had the wisdom to take the first course many times before. Let's hope it does so again.

## America and the Middle East

# More U-turns, please

Jul 24th 2008
From The Economist print edition

**American policy in the Middle East is changing, and could usefully change some more**

EPA

BARACK OBAMA'S presidential-style progress through the Middle East and Europe this week stole many headlines (see article). But that should not be allowed to divert attention from some surprising policy shifts by the man who, last time we checked, was still the actual president of the United States. George Bush has just made at least one-and-a-half U-turns in the Middle East. They have serious merit. If he now makes another turn and a half, he may bequeath whoever succeeds him something unexpected: the beginnings of a decent American policy for this troubled region.

Mr Bush's first U-turn was on Iran. For several years now the world has applied economic sanctions, part of a policy of carrots and sticks designed to make Iran come clean about a nuclear programme which it claims is peaceful but which many governments believe to be a quest for the bomb. Until last week, however, America had left it to Britain, France, Germany, Russia and China to dangle the carrots. America itself was all stick. America's partners have held countless meetings with Iran to offer technical and economic rewards if the Iranians only stop enriching uranium. Mr Bush, having consigned the mullahs to an "axis of evil" in his first term, refused to let Americans attend. That has helped the Iranians to claim that whatever the other countries were offering was never enough; what use the blandishments of lesser powers if the superpower was determined on hostility and regime change?

So it is good that Mr Bush at last let a senior member of the State Department join the latest talks, in Geneva on July 19th. This produced predictable cries of "appeasement". The *Wall Street Journal* fumed, accurately, that Iran had done nothing to earn this "warm shoulder". That misses the point. By showing that it is willing to engage, America knocks away a central argument of the Iranian hardliners. Most Iranians crave good relations with America and the wider world. Though the policy of carrots and sticks might still fail, it stands a better chance of success if America can prove, while keeping up the sanctions, that a deal really is available if Iran will compromise.

Mr Bush's U-turn on Iran was voluntary. The simultaneous change in Iraq seems to have been forced upon him, so qualifies as only half a turn. Even so, the fact that America and Iraq are both suddenly talking about a "time horizon" for the withdrawal of troops is not a bad thing. At the least, it underlines the growing confidence of the government of Nuri al-Maliki (pictured with Mr Obama) as the fighting dies down.

For the present, of course, such talk is best kept vague. A premature withdrawal, whether it is prompted by over-confidence on Iraq's part or American impatience under a President Obama, risks unleashing a renewal of sectarian killing and a return to chaos. But provided both governments remain flexible, it is

useful for Iraqis and Americans alike to be reassured that Iraq is a sovereign country and that America has no right or intention to stay any longer than it is welcome.

## If lame ducks could fly

It may seem absurd to suggest more U-turns for Mr Bush during his few remaining months in office. But one fairly simple one would be to show towards Syria—also once a member (though added as an afterthought) of the axis of evil—the same guarded flexibility that he is now showing towards Iran.

This would require eating a modest slice of humble pie. Syria's dictator, Bashar Assad, has been an irritation to America. He has let jihadists into Iraq from Syria and given weapons to other foes of America such as Hizbullah in Lebanon and Hamas in the Gaza Strip. He may have ordered the killing of a former Lebanese prime minister. Forcing Syrian forces to quit Lebanon after that country's "cedar revolution" in 2005 was one of Mr Bush's few achievements in the region.

Still, Mr Assad has managed somehow not only to survive American pressure but also to make himself a force to be reckoned with. Israel recognises this and has lately begun indirect negotiations with Syria through Turkey. Hard as it is, Mr Bush should follow the example of France's president, Nicolas Sarkozy, and do his bit to jolly such peace talks along. If nothing else, an opening to Syria would put further useful pressure on Iran, which is otherwise miserably short of Arab friends.

The final half turn? Mr Bush cannot make up in months for his years of neglect of Palestine. But he could do his successor a favour by drawing, as Bill Clinton did, a clearer picture of the territorial price any president will expect Israel to pay for peace with the Palestinians. Everyone knows that this will have to include sharing Jerusalem with a Palestinian state and handing over the bulk of the West Bank. Yet even presidential candidates as audacious as Mr Obama find this strangely hard to say out loud before they are elected. By saying it himself Mr Bush could at least help the next man make a quicker start.

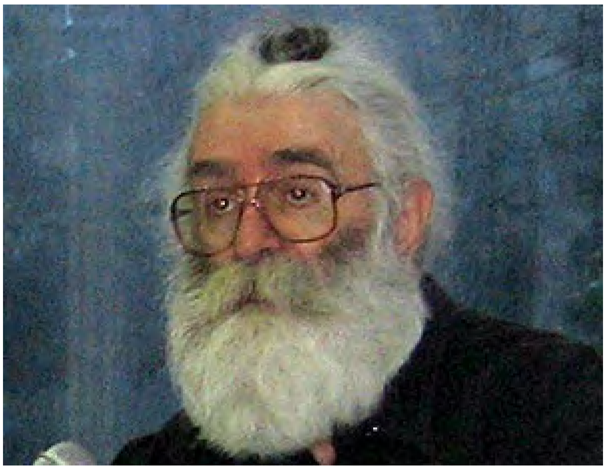
**The Balkans**

# Karadzic caught

Jul 24th 2008
From The Economist print edition

**His arrest shows how much good the EU can do if it stays open to new members**

EPA



THE disguise was striking. It was hard to believe that behind the wire-framed spectacles and bushy grey beard of an apparent practitioner of alternative medicine in a quiet corner of Belgrade was Radovan Karadzic, the Bosnian Serbs' notorious wartime leader. No wonder his capture and probable extradition to appear before The Hague war-crimes tribunal on charges of genocide and crimes against humanity have been greeted with such elation around the world.

This is not quite the end of the Balkan tragedy precipitated by the break-up of the former Yugoslavia in the early 1990s. The Bosnian Serb military commander, Ratko Mladic, is still at large, as is one other big fish wanted by The Hague. Bosnia continues to be troubled by internal divisions, with its Serb entity still threatening to declare unilateral independence. Serbia itself has come no closer to accepting the independence of Kosovo, which it sees as a renegade southern province. Yet the arrest of Mr Karadzic, which may soon be followed by that of Mr Mladic, offers a form of closure to the people of this long-suffering region. It is also a triumph for the concept and value of international justice that, even after 13 years on the run, such an important suspect can be reached by the courts.

It is also, in a quiet way, a success for the European Union. The western Balkan countries, and especially Serbia, have presented some tricky challenges for the EU, which responded clumsily to the outbreak of war in the 1990s. With other countries of central and eastern Europe, the EU's successful tactic was to hold out the prospect of membership as an incentive to induce democratic and liberal reforms. But the atavistic nationalist forces that are so prevalent across the western Balkans have often proved impervious to this treatment. And the decision by most EU countries to join the United States in recognising Kosovo's independence last February threatened to make it even harder for the EU to deal with Serbia.

In the event, the EU (helped by the pro-European lobby in Serbia) has handled this problem brilliantly. The last-minute offer of a stabilisation and association agreement, normally a prelude to membership talks, encouraged Serbian voters to back pro-European parties in the general election in May. President Boris Tadic's Democrats then managed to form a broadly pro-European coalition government, ousting the nationalist Vojislav Kostunica as prime minister. It is no coincidence that the capture of Mr Karadzic came only two weeks after this new government took office, and less than a week after a new head of the Serbian security service was appointed to replace Mr Kostunica's man (see article).

But this success for the EU's "soft power" highlights another problem: that the union is suffering a bad case of enlargement fatigue. This week Romania and, especially, Bulgaria were chastised by Brussels for

failing to curb corruption, confirming the view of many that these two Balkan countries were let into the club too early (see article). The leaders of France and Germany have recently gone out of their way to insist that there can be no more EU enlargement unless the Lisbon treaty is ratified, which remains highly uncertain. The new French constitution, approved this week, retains a provision for referendums in France for any new country that aspires to join the EU (though this can be overridden).

Yet the alternative to EU membership for countries like Serbia, Bosnia and, ultimately, Kosovo, is not a tidy Swiss-style association. It is the prospect of joining the EU that helps to keep the western Balkan countries at peace. If they are blocked, some might easily relapse into a nationalist fever that could even reignite conflict. For its own good, as much as for the Balkans, the EU must keep its doors open.

France

# Sarkozy's progress

Jul 24th 2008
From The Economist print edition

**France's president is reforming his country more determinedly than many expected**

EPA

HE HAS been hard to ignore, but easy to write off. Ever since he was elected French president in May 2007, Nicolas Sarkozy has been breathlessly hyperactive, in both his personal and his official life. Perhaps because of this, cynical observers have tended to dismiss him as a showman who talks the talk but seldom walks the walk. Our verdict on his first anniversary in early May was that his presidency had, thus far, been a disappointment.

Yet in recent weeks Mr Sarkozy's government has managed to pass a string of reforms—and to do so without running into that traditional bugbear of French presidents, mass protests in the streets. How has he achieved it? In his early months Mr Sarkozy showed himself too easily distracted and overly prone to compromise. He then had to cope simultaneously with a deteriorating economic outlook and a humiliating dive in popularity. None of these things has got any better. And yet Mr Sarkozy has bolstered the momentum of his reforms thanks to three largely unrelated factors.

The first is that he and his advisers realised, perhaps belatedly, that there really is no alternative: that, on the back of his thumping majorities in both the presidential and parliamentary elections last year, Mr Sarkozy has to deliver his manifesto pledges of radical change and a promise to put France back to work if he is to retain any credibility at all with voters. A second factor is the continuing weakness of the opposition Socialist Party, which has helped to offset his own deep personal unpopularity. And the third, perhaps most decisive and least expected, has been the taming of France's notoriously bolshy trade unions (see article).

That the French president is sticking to his reform agenda is good news not just for France but for all of Europe. Until recently, the euro-area economy was holding up surprisingly well in the face of an American slowdown and a troubled world economy. But it seems to have stalled in the second quarter: growth has more or less stopped in Germany and Italy, and countries experiencing property busts, such as Spain and Ireland, are falling off a cliff. France is doing better than some others, but it too is stuttering. Mr Sarkozy's reforms will not have quick enough effects to help much, but they are essential in the long run if the economy is to become both more flexible and more competitive.

## The economist and the populist

A sharp economic slowdown, which could easily tip into a recession, will undoubtedly test Mr Sarkozy's

resolve, but so far he seems, correctly, to have concluded that it makes changing France more pressing, not less. The real danger now is not that he will give up on reform, but that recession will reinforce his worst populist tendencies.

For there are in truth two Sarkozys. One is an economic liberaliser who has long insisted that France must change, that French people must work harder and that the entire system needs to undergo a complete *rupture*, or break with the past. This is the president who is pushing ahead grittily with his economic reforms.

The other Sarkozy is an economic nationalist who talks grandly about the importance of protecting jobs and factories, distrusts both free-traders and the market, and frets publicly about the downside to globalisation. This is the president who attacks the European Central Bank at almost every opportunity for its rigid monetary policy, criticises the European Commission for its promotion of competition and is seeking to undermine the Doha world trade talks because they threaten to cut European Union farm subsidies.

The good Mr Sarkozy could yet jolt the French out of their long economic decline. He has time on his side. As part of the constitutional changes that he got through parliament this week, presidents are now limited to two terms. That in theory gives him until 2017. But if he is to succeed, he must hold back his bad, populist instincts. In many ways France, Europe's second-biggest economy, will be decisive for the future of reform across the entire euro area. Liberalisation in Germany is blocked by coalition politics; for different reasons, the leaders of Spain and Italy are disinclined to pursue it. But if France can successfully set the example, everybody else will be forced to sit up and take note.

Economist.com OPINION LEADERS

Zimbabwe

# Only talk tough

Jul 24th 2008
From The Economist print edition

**Morgan Tsvangirai is right to talk to Robert Mugabe—about the dictator's exit**

AFP

IT STICKS in the gullet of the large majority of Zimbabwe's people yearning to see the back of Robert Mugabe that the man who should have displaced him four months ago by virtue of the ballot box has now been persuaded to engage in talks with him, seemingly more as supplicant than rightful successor. But Morgan Tsvangirai, the opposition leader who won the first round of the presidential election in March but was savagely intimidated into abandoning the second round at the end of June, is right to agree to talks with the usurper. The alternative, if Mr Tsvangirai were to dig his toes in and refuse to parley until the incumbent simply bowed out, would be more bloodshed and misery for the aggrieved majority and a still more ferocious clinging to power by Mr Mugabe and his clique. By agreeing to talk, Mr Tsvangirai is at least offering Mr Mugabe a gracious if necessarily gradual exit. And if Mr Mugabe fails to negotiate in good faith, Mr Tsvangirai may be forced to walk away, as Zimbabwe falls ever more deeply into lawlessness, poverty and despair. So he must at least try (see article).

Mr Mugabe will, of course, seek to bamboozle Mr Tsvangirai, a brave man who in the past has not been the cleverest of negotiators when tussling either with Mr Mugabe's canny villains or with his own disputatious colleagues in the Movement for Democratic Change (MDC). Mr Mugabe, abetted by South Africa's bafflingly complaisant president, Thabo Mbeki, will try to engineer a government of national unity, with his own people in the driving seat, while co-opting and confusing as many of Mr Tsvangirai's party as possible. Mr Mugabe's team take as its model Kenya, where, in an election late last year, the incumbent president almost certainly lost at the polls but managed, after weeks of bloodshed, to stay in power by giving the apparent winner the post of prime minister and a bunch of other less powerful ministries.

Mr Tsvangirai will be right to resist such a compromise. Instead, he must insist on a strictly transitional arrangement, with ministries allotted in keeping with the results of the parliamentary poll, which even Mr Mugabe's election officials agree was won by Mr Tsvangirai's party. A clutch of other key conditions must also be met before the talks can seriously get under way. For a start, the state-sponsored violence, in which more than 100 of Mr Tsvangirai's people have been murdered and thousands beaten and tortured, must stop; thousands more must be freed from prison; and scores of bogus charges against newly elected members of parliament, MDC officials, and the leader of an MDC splinter party must be dropped. A further host of conditions, repeatedly laid down but wilfully ignored in the run-up to elections by the southern African Development Community, an influential regional group of countries, must be met. Among many other things, the press should be freed. Foreign reporters, including from the BBC, should be let back in. Just as important, foreign aid organisations, banned by Mr Mugabe during the election campaign, should also again be able freely and directly to disburse help. Most crucially, a transitional administration should prepare for a fresh election, monitored by the UN, the EU and the African Union, within a year or so of taking office.

## All too starry-eyed?

Why should Mr Mugabe even consider meeting this array of conditions, when he has so blatantly flouted or rejected them in the past? The answer is that behind the defiance he appears to be under greater pressure than ever before. His economy is reaching a new level of disaster, with inflation now running at a rate of millions per cent a year. The latest harvest has been dismal, bread may soon run out and famine is a real threat. African governments, though many are still pusillanimous, are turning against him. Mr Mbeki still waffles and wobbles, but opinion in his ruling African National Congress is hardening against Mr Mugabe. Just as promisingly, the UN and the African Union are now formally engaged in the negotiations too. The world's financial institutions are poised to take remedial action, if a decent settlement takes shape. Once Mr Mugabe is locked into proper talks, it may no longer be so easy for him to have his way. And if he cheats and filibusters, Mr Tsvangirai should simply walk out.

Economist.com OPINION LEADERS

Short-selling

# Naked fear

Jul 24th 2008
From The Economist print edition

**Regulators have yet to justify their restrictions on short sales**

Illustration by Claudio Munoz

IF BANK bosses have slept at all in recent months, their dreams have probably been unhappy ones. Quite a few of them will have featured nightmarish beings known as short-sellers. These ghouls sell shares they do not own—usually borrowed stock, which they sell in the hope of buying it back at a lower price. Many of them have been betting vocally, and successfully, that bank shares will fall. Now financial regulators in both America and Britain are doing their best to make bankers' waking and sleeping hours a little less troubled, by imposing restrictions on short-selling. They should have left bankers to toss and turn a little longer.

This month America's Securities and Exchange Commission (SEC) banned "naked" shorting—the sale of stock that investors do not yet have in their possession—of the American-listed shares of 17 investment banks as well as of the country's mortgage giants, Fannie Mae and Freddie Mac. Last month Britain's Financial Services Authority (FSA) introduced a new disclosure regime for short positions in companies that are selling new shares. Both announcements bore a whiff of panic: they were made during steep falls in bank shares and the fine print was tidied up afterwards. Both were accompanied by the rattling of regulatory sabres. The FSA growled that "market abuse" could explain the "severe volatility" of shares. The SEC thundered that "false rumours can lead to a loss of confidence". It has reportedly fired off more than 50 subpoenas, largely to hedge funds.

Spreading false rumours with the intention of manipulating share prices is to be deplored. Indeed, it is usually illegal. If either regulator has evidence that this explains the fall in banks' share prices, they should bring the culprits to book. It may be that the SEC's flurry of subpoenas turns up something substantial. But neither of the watchdogs has produced such evidence so far.

Naked shorting too can be a cause for concern. It can result in failed trades if investors sell shares without properly checking that they will be able to obtain them before their trade settles. This can sometimes lead to disorderly markets. But the SEC already has rules against this as well—although some argue they could be enforced better. It also has tests for levels of botched trades in any individual stock, which trigger its intervention. However, these tests were met for only one of the 19 institutions the SEC has leapt to protect. Indeed, the commission's chairman has said that "unbridled" naked short-selling of financial stocks has "not occurred". The SEC has also shown less enthusiasm for policing trading in other distressed industries, such as carmaking, where short-sellers have been much more active than they have in banking.

## The Selective Enforcement Commission

The sense of selective enforcement, combined with regulators' dark mutterings about short-sellers of financial stocks, explains the widespread suspicion in the markets that both regulators acted in order to prop up bank shares. After all, as well as policing stockmarkets, the SEC and the FSA are responsible for supervising the capital positions of these institutions (although the SEC does not oversee the solvency of Fannie and Freddie). More failures on their watch would be embarrassing.

If this suspicion is accurate, it is unfair that regulators should take aim at short-sellers. Although overall short positions in banks have risen, they have not overwhelmed other trading. After the collapses of Bear Stearns and Northern Rock it is entirely legitimate for investors to debate other banks' vulnerabilities—and to back their opinions with money. Indeed, prominent short-sellers have played an important role in exposing the poor condition of some companies, often in the face of intense hostility from management. There is no guarantee that the regulators' actions will even work beyond the very short term. On July 21st, a month after the FSA intervened, the shares in HBOS, Britain's biggest mortgage lender, languished below the price at which the bank was trying to sell new equity, forcing it to rely on its underwriters.

Some may say that the rules should still be bent to prop up bank shares, because banks rely on confidence and their failure causes systemic damage. But lenders now have generous privileges to borrow from central banks; these should prevent runs on solvent banks. Fannie and Freddie now have near-explicit state guarantees. Shareholders neither need nor deserve any more privileges. Attempting to distort share prices away from their market level is not a legitimate activity for traders. It is no business of regulators either.

Economist.com OPINION LETTERS

# On trade, international institutions, Singapore, violence, Silvio Berlusconi

Jul 24th 2008
From The Economist print edition

## The world trade system

SIR – Your briefing on the Doha trade negotiations exaggerated the damage to the world economy from not reaching an agreement on the current proposals ("Defrosting Doha", July 19th). There is almost no chance that the global economy would become less integrated as a result of "failure". The producers of most goods and services in the major economies are much more integrated into complex cross-border production systems than between 1914 and the 1930s, when the world economy actually did become less integrated.

It is better that the Doha round be concluded soon with a declaration of victory around whatever can be agreed. Several developing countries now have big enough markets to give them leverage over rules of access to their markets, and their governments could take the lead in revising current rules on terms more favourable than those they agreed to in the Uruguay round of trade talks.

These governments should sculpt new multilateral agreements aimed at reshaping domestic economic space, including softening the handicaps imposed on them by rules on intellectual property and the protection of nascent industries. But we had better hurry, before developing countries change their minds and begin to act like today's developed countries.

Robert Wade
Professor
Development Studies Institute
London School of Economics
London

## Global governance

SIR – Regarding your leader on the future of international government ("What a way to run the world", July 5th), other institutions that the West could reform include the G8, so that it reflects tomorrow's balance of power. Based on population and GDP at purchasing-power parity the new G8 would be formed by Brazil, China, the European Union, India, Indonesia, Japan, Russia and the United States. If the Europeans want to keep a national seat Germany could replace the EU on the list. This new ranking gets rid of those countries that are clearly punching above their weight in today's political arena (such as Britain and France).

In global finance, the Bank for International Settlements should be transformed from a discussion forum for central bankers into a policy co-ordinating body, turning it into the world's central bank with a mandate to keep inflation stable and low worldwide. Central bankers would then have a stronger voice in advising politicians about solving global problems.

Krzysztof Rybinski
Former deputy governor of the National Bank of Poland
Warsaw

SIR – A League of Democracies is an interesting idea, but who would decide which countries are democratic? Britain? (Its present government was opposed by almost two-thirds of voters in the 2005 general election.) The United States? (George Bush was swept into power because of the decision of a Supreme Court packed with the ruling party's appointees.) And how democratic would it be to exclude from global decisions a large swathe of people around the world who are not fortunate enough to live in countries that are considered to be democratic?

Perhaps international institutions should start closer to home by applying democratic principles in their own governance structures. No country that gave more votes to a small, rich minority than the poor majority, as the IMF and World Bank do, would be considered for a moment to be democratic. Nor would a democratic country tolerate a government that operated through an elaborate system of secret meetings characterised by blatant arm-twisting and browbeating by the most powerful, like the World Trade Organisation.

David Woodward
Rijswijk, the Netherlands

SIR – I'm not sure you're right, that any of these international organisations are needed or that the world would be worse off without them. The people that seem to most want them are the political elite and the employees of these global bodies. Their salaries, expenses, and maintenance costs (such as ferrying their cars back and forth) are all significantly higher for similar work done in the private sector. If the total cost of all these organisations were totted up I'm sure it would come to billions of dollars, all paid for by taxpayers in the industrialised countries.

Guy Hussar
Brighton

## Singapore

SIR – You suggested that the president of the International Bar Association (IBA), Fernando Pombo, praised the Singapore judiciary without the facts ("Raising the bar", July 19th). This is unfair and untrue.

In February 2007, Dr Chee Soon Juan lobbied the IBA to boycott Singapore, claiming it lacks the rule of law. After a careful review, the IBA proceeded to hold its annual conference in Singapore in October 2007 because, as Mr Pombo publicly said in his opening speech, of its "outstanding legal profession" and "an outstanding judiciary".

Mr Pombo's conclusion accords with other reputable international rankings. This year, the IMD, a global business school, ranked Singapore first among 55 countries for its legal and regulatory framework and sixth, and best in Asia, for the fair administration of justice.

The latest "Global Competitiveness Report" from the World Economic Forum (WEF) rated Singapore 19th out of 131 countries on independence of the judiciary from political influence, ahead of Japan, France, Luxembourg and the United States. The WEF also rated Singapore first out of 131 countries for "public trust of politicians" and "transparency of government policymaking".

These rankings would hardly have been possible if Singapore's leaders were not prepared to sue for defamation in civil cases and be cross-examined in open court by people like Dr Chee who falsely accuse them of corruption.

YEONG YOON YING
Press secretary to minister mentor, Lee Kuan Yew
Singapore

## Always with us

SIR – I was surprised by your thinking on the "evolution" of Britain into a "high-violence society" ("Island savages", July 12th). I thought that endemic violence among a certain section of Britain's uncouth youth had always been the case, regardless of the state of the economy. Prior generations of British hooligans have behaved in a similar anti-social fashion to today's troublemakers. Whether this is because of a lack of proper policing or is one of the unintended consequences of the welfare state I do not know.

I recall being on a train in the winter of 1976 when a gang of football fans went on the rampage and beat up innocent passengers at random. There wasn't a police officer in sight, which was one of the factors that eventually encouraged me to emigrate.

Tim Stevens

Philadelphia

## Requesting an article

SIR – I could not help but notice that almost immediately after you published a flattering Face value profile of Diane Greene, she was sacked as the chief executive of Vmware (July 5th). I was wondering if you could soon write a Face value profile of Italy's prime minister, Silvio Berlusconi?

Andrea Zanetti Polzi
St Louis Park, Minnesota

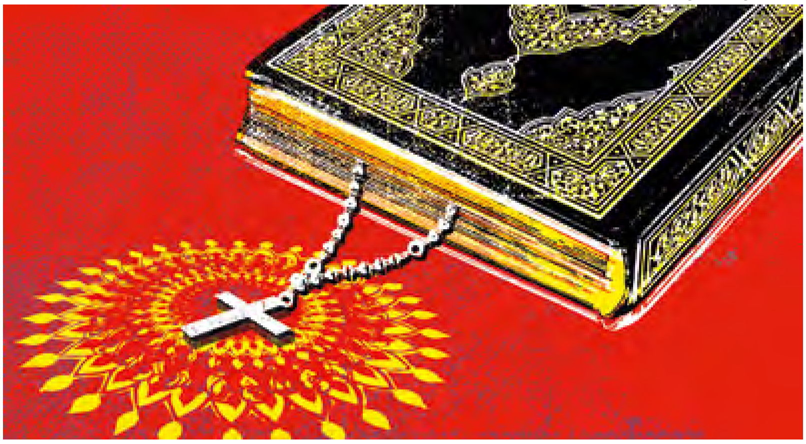
Economist.com BRIEFINGS

Religious conversions

# The moment of truth

Jul 24th 2008
From The Economist print edition

Illustration by Garry Neill



**In many parts of the world, the right to change one's beliefs is under threat**

AS AN intellectually gifted Jewish New Yorker who had reached manhood in the mid-1950s, Marc Schleifer was relentless in his pursuit of new cultural and spiritual experiences. He dallied with Anglo-Catholicism, intrigued by the ritual but not quite able to believe the doctrine, and went through a phase of admiration for Latin American socialism. Experimenting with lifestyles as well as creeds, he tried respectability as an advertising executive, and a more bohemian life in the raffish expatriate scene of North Africa.

Returning from Morocco to his home city, he was shocked by the harsh anonymity of life in the urban West. And one day, riding the New York subway, he opened the Koran at a passage which spoke of the mystery of God: beyond human understanding, but as close as a jugular vein. Suddenly, everything fell into place. It was only a matter of time before he embraced Islam by pronouncing before witnesses that "there is no God but God, and Muhammad is his prophet."

Some 40 years on from that life-changing moment—not untypical of the turning points that many individuals experience—Abdallah Schleifer has won distinction as a Muslim intellectual. Last year he was one of 138 Muslim thinkers who signed an open letter to Christian leaders calling for a deeper theological dialogue. The list of signatories included (along with the muftis from Cairo, Damascus and Jakarta) several other people who had made surprising journeys. One grew up as an English nonconformist; another as a Catholic farm boy from Oregon; another in the more refined Catholic world of bourgeois Italy.

Sometimes conversion is gradual, but quite commonly things come to a head in a single instant, which can be triggered by a text, an image, a ceremony or some private realisation. A religious person would call such a moment a summons from God; a psychologist might speak of an instant when the walls between the conscious and unconscious break down, perhaps because an external stimulus—words, a picture, a rite—connects with something very deep inside. For people of an artistic bent, the catalyst is often a religious image which serves as a window into a new reality. One recurring theme in conversion stories is that cultural forms which are, on the face of it, foreign to the convert somehow feel familiar, like a homecoming. That, the convert feels, "is what I have always believed without being fully aware of it."

Take Jennie Baker, an ethnic Chinese nurse who moved from Malaysia to England. She was an evangelical, practising but not quite satisfied with a Christianity that eschews aids to worship such as pictures, incense or elaborate rites. When she first walked into an Orthodox church, and took in the icons that occupied every inch of wall-space, everything in this "new" world made sense to her, and some

teachings, like the idea that every home should have a corner for icons and prayer, resonated with her Asian heritage. Soon she and her English husband helped establish a Greek Orthodox parish in Lancashire.

## Following the heart

In the West it is generally taken for granted that people have a perfect, indeed sacred, right to follow their own religious path, and indeed to invite—though never compel—other people to join them. The liberal understanding of religion lays great emphasis on the right to change belief. Earlier this year, a poll found that one in four Americans moves on from the faith of their upbringing.

America's foundation as a refuge for Europe's Christian dissidents has endowed it with a deep sense of the right to follow and propagate any form of religion, with no impediment, or help, from the state. In the 1980s America saw some lively debates over whether new-fangled "cults" should be distinguished from conventional forms of religion, and curbed; but in the end a purely libertarian view prevailed. The promotion of religious liberty is an axiom of American foreign policy, not just in places where freedom is obviously under threat, but even in Germany, which gets gentle scoldings for its treatment of Scientology.

But America's religious free-for-all is very much the exception, not the rule, in human history—and increasingly rare, some would say, in the world today. In most human societies, conversion has been seen as an act whose consequences are as much social and political as spiritual; and it has been assumed that the wider community, in the form of the family, the village or the state, has every right to take an interest in the matter. The biggest reason why conversion is becoming a hot international topic is the Muslim belief that leaving Islam is at best a grave sin, at worst a crime that merits execution (see article). Another factor in a growing global controversy is the belief in some Christian circles that Christianity must retain the right to seek and receive converts, even in parts of the world where this may be viewed as a form of cultural or spiritual aggression.

## A fighting matter

The idea that religion constitutes a community (where the loss or gain of even one member is a matter of deep, legitimate concern to all other members) is as old as religion itself. Christianity teaches that the recovery of a "lost sheep" causes rejoicing in heaven; for a Muslim, there is no human category more important than the *umma*, the worldwide community of believers.

But in most human societies the reasons why conversion causes controversy have little do with religious dogma, and much to do with power structures (within the family or the state) and politics. Conversion will never be seen as a purely individual matter when one religiously-defined community is at war or armed standoff with another. During Northern Ireland's Troubles a move across the Catholic-Protestant divide could be life-threatening, at least in working-class Belfast—and not merely because people felt strongly about papal infallibility.

And in any situation where religion and authority (whether political, economic or personal) are bound up, changes of spiritual allegiance cause shock-waves. In the Ottoman empire, the status of Christians and Jews was at once underpinned and circumscribed by a regime that saw religion as an all-important distinction. Non-Muslims were exempt from the army, but barred from many of the highest offices, and obliged to pay extra taxes. When a village in, say, Crete or Bosnia converted en masse from Christianity to Islam, this was seen as betrayal by those who stayed Christian, in part because it reduced the population from which the Ottomans expected a given amount of tax.

In the days of British rule over the south of Ireland, it was hard for Catholics to hold land, although they were the overwhelming majority. An opportunistic conversion to the rulers' religion was seen as "letting the side down" by those who kept the faith. Similar inter-communal tensions arose in many European countries where Jews converted to Christianity in order to enter university or public service.

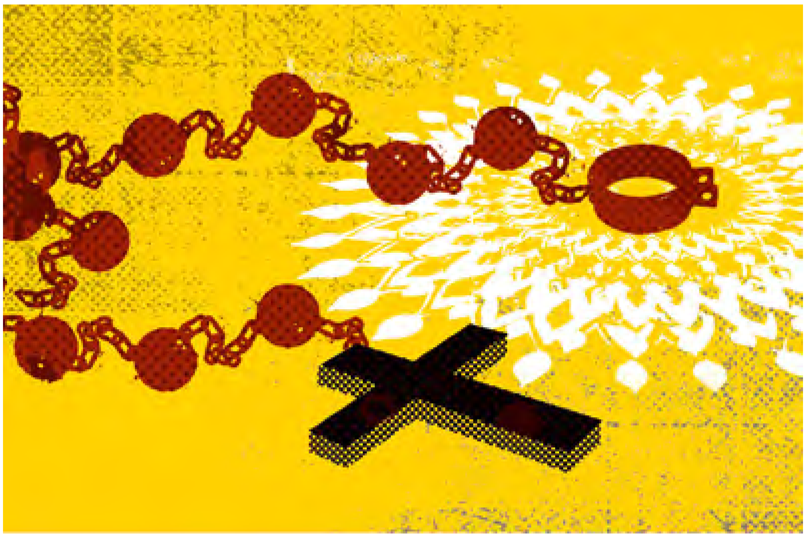
In most modern societies, the elaborate discrimination which made religious allegiance into a public matter is felt to be a thing of the past. But is this so? In almost every post-Ottoman country, traces exist of the mentality that treats religion as a civic category, where entry and exit is a matter of public negotiation, not just private belief. Perhaps Lebanon, where political power is allocated along confessional

lines (and boat-rocking changes of religious affiliation are virtually impossible) is the most perfectly post-Ottoman state. But there are other holdovers. In "secular" Turkey, the Greek Orthodox, Armenian and Jewish minorities have certain poorly observed rights that no other religious minority enjoys; isolated Christians, or dissident Muslims, face great social pressure to conform to standard Sunni Islam. In Greece, it is unconstitutional to proselytise; that makes life hard for Jehovah's Witnesses or Mormons. In Egypt, the fact that building a Christian church requires leave from the head of state is a direct legacy of a (liberalising) Ottoman decree of 1856.

## Tactical manoeuvres

But the Ottoman empire is by no means the only semi-theocratic realm whose influence is still palpable in the governance of religious affairs, including conversion. In an odd way, the Soviet Union continued the legacy of the tsars by dividing citizens into groups (including Jews or some Muslim ethnicities) where membership had big consequences but was not a matter of individual choice. In post-Soviet Russia, the prevailing Orthodox church rejects the notion of a free market in ideas. It seeks (and often gets) state preference for "traditional" faiths, defined as Orthodox Christianity, Judaism, Islam and Buddhism. This implies that other forms of Christianity are "poaching" if they seek to recruit Russians.

Illustration by Garry Neill



But issues of conversion are also painful in some former territories of the British empire, which allowed its subjects to follow their own communal laws. Take India, which once aspired to be a secular state, and whose constitution calls for a uniform civil code for all citizens. That prospect is now remote, and the fact that different religious groups live by different family laws, and are treated unequally by the state and society, has created incentives for "expedient" conversion. A colourful body of jurisprudence, dating from the British Raj, concerns people who changed faith to solve a personal dilemma—like men who switched from Hinduism to Islam so as to annul their marriage and wed somebody else. In 1995, the Supreme Court tried to stop this by saying people could not dodge social obligations, or avoid bigamy charges, by changing faith. What India's case law shows, says Marco Ventura, a religious-law professor, is the contrast between conversion in rich, liberal societies and traditional ones, where discrimination tempts people to make tactical moves.

And in many ways religious freedom is receding, not advancing, in India. Half a dozen Indian states have introduced laws that make it hard for people to leave Hinduism. These states are mostly ruled by the Hindu nationalist Bharatiya Janata Party (BJP). But last year Himachal Pradesh became the first state led by the more secular Congress party to bring in such legislation: such is the power of Hindu sentiment that even non-religious parties pander to it.

The state's new law is billed as a "freedom of religion" measure, but it has the opposite effect: anyone wishing to switch faiths must tell the district magistrate 30 days before or risk a fine. If a person converts another "by the use of force or by inducement or by any other fraudulent means", they can be jailed for up to two years, fined, or both. Local pastors say "inducement" could be taken to mean anything, including giving alms to the poor.

Supporters of such laws say proselytisers, or *alleluia wallahs*, are converting poor Hindus by force. It is

true that Christian evangelism is in full swing in parts of India, especially in its eastern tribal belt, and that it enjoys some success. Officially, fewer than 3% of India's 1.1 billion people are Christian. But some Christians say the real total may be double that. Christian converts, most of whom are born as *dalits* at the bottom of the Hindu caste system, often hide their new faith for fear of losing their rights to state jobs and university places kept for the lower castes.

But it is unlikely that many Hindu-to-Christian switches are forced. In states with anti-conversion laws, credible allegations of conversion under duress have very rarely been made.

Anyway, India's arguments have more to do with politics than theology. Hindutva, the teaching that India is a Hindu nation and that Christians and Muslims are outsiders, has been a vote-winner for the BJP. Even in Himachal Pradesh, voters were unmoved by the Congress party's attempt to ride the religious bandwagon; the BJP still won the latest elections.

The contest between theocratic politics and a notionally secular state looks even more unequal in another ex-British land, Malaysia, where freedom of choice in religion is enshrined in the federal constitution, but Islamic law is imposed with growing strictness on the Muslim majority.

Until the mid-1990s, say Malaysian civil-rights advocates like Malik Imtiaz Sarwar, the federal authorities enforced religious freedom; the National Registration Department, a federal agency, would comply when anybody asked to record a change of religion. More recently, both that agency and Malaysia's top judges have deferred to the *sharia* courts, which enjoy increasing power in all 13 states of the Malaysian federation; and those courts rarely let a registered Muslim quit the fold. A recent exception was an ethnic Chinese woman who was briefly married to an Iranian; a *sharia* court let her re-embrace Buddhism, but only on the ground that she was never fully Muslim, so the idea of "Once a Muslim, always a Muslim" remained intact.

A more telling sign of the times was the verdict in the case of Lina Joy, a Malay convert from Islam to Christianity who asked a federal court to register the change on her ID card. By two to one the judges rejected her bid, arguing that one "cannot, at one's whims or fancies, renounce or embrace a religion". Too bad, then, for any Malaysians who have a moment of truth on the subway, especially if the faith to which they are called happens not to be Islam.

Islam and apostasy

# In death's shadow

Jul 24th 2008
From The Economist print edition

**With some exceptions, an increasingly hard line across the Muslim world**

"CAN a person who is Muslim choose a religion other than Islam?" When Egypt's grand mufti, Ali Gomaa, pondered that dilemma in an article published last year, many of his co-religionists were shocked that the question could even be asked.

And they were even more scandalised by his conclusion. The answer, he wrote, was yes, they can, in the light of three verses in the Koran: first, "Unto you your religion, and unto me my religion"; second, "Whosoever will, let him believe, and whosoever will, let him disbelieve"; and, most famously, "There is no compulsion in religion."

Illustration by Garry Neill

The sheikh's pronouncement was certainly not that of a wet liberal; he agrees that anyone who deserts Islam is committing a sin and will pay a price in the hereafter, and also that in some historical circumstances (presumably war between Muslims and non-Muslims) an individual's sin may also amount to "sedition against one's society". But his opinion caused a sensation because it went against the political and judicial trends in many parts of the Muslim world, and also against the mood in places where Muslims feel defensive.

In the West, many prominent Muslims would agree with the mufti's scripturally-based view that leaving Islam is a matter between the believer and God, not for the state. But awkwardly, the main traditions of scholarship and jurisprudence in Islam—both the Shia school and the four main Sunni ones—draw on Hadiths (words and deeds ascribed with varying credibility to Muhammad) to argue in support of death for apostates. And in recent years sentiment in the Muslim world has been hardening. In every big "apostasy" case, the authorities have faced pressure from sections of public opinion, and from Islamist factions, to take the toughest possible stance.

In Malaysia, people who try to desert Islam can face compulsory "re-education". Under the far harsher regime of Afghanistan, death for apostasy is still on the statute book, despite the country's American-backed "liberation" from the tyranny of the Taliban. The Western world realised this when Abdul Rahman, an Afghan who had lived in Germany, was sentenced to die after police found him with a Bible. After pressure from Western governments, he was allowed to go to Italy. What especially startled Westerners was the fact that Afghanistan's parliament, a product of the democracy for which NATO soldiers are dying, tried to bar Mr Rahman's exit, and that street protests called for his execution.

The fact that he fled to Italy is one of the factors that have made the issue of Muslim-Christian conversion a hot topic in that country. There are several others. During this year's Easter celebrations, Magdi Allam, an Egyptian-born journalist who is now a columnist in Italy, was publicly baptised as a Catholic by Pope Benedict; the convert hailed his "liberation" from Islam, and has used his column to celebrate other cases of Muslims becoming Christian. To the delight of some Catholics and the dismay of others, he has defended the right of Christians to proselytise among Muslims, and denounced liberal churchmen who are "soft" on Islam.

Muslims in Italy and elsewhere have called Mr Allam a provocateur and chided Pope Benedict for abetting him. But given that many of Italy's Muslims are converts (and beneficiaries of Europe's tolerance), Mr Allam says his critics are hypocrites, denying him a liberty which they themselves have enjoyed.

If there is any issue on which Islam’s diaspora—experiencing the relative calmness of inter-faith relations in the West—might be able to give a clearer moral lead, it is surely this one. But even in the West, speaking out for the legal and civil right to “apostasise” can carry a cost. Usama Hasan, an influential young British imam, recently made the case for the right to change religions—only to find himself furiously denounced and threatened on Islamist websites, many of them produced in the West.

The economy: the problem

# Workingman's blues

Jul 24th 2008 | KANSAS CITY, MISSOURI
From The Economist print edition

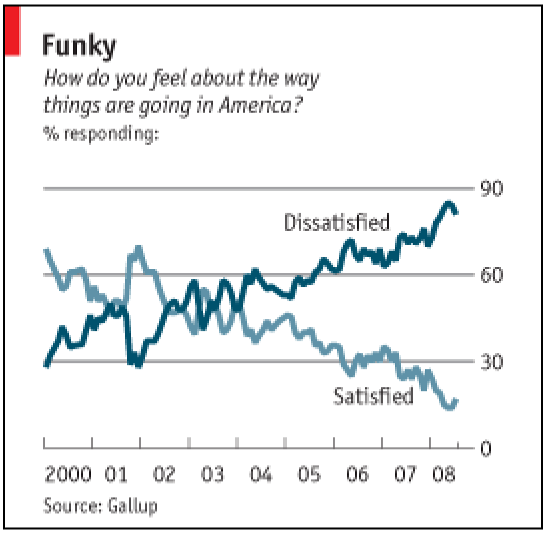
AP


**Americans are furious about the state of their country. In the first of two articles, we examine the reasons for their discontent (see also article)**

JOEL AND JACKIE BRENDE differ on many things. He's a Republican, and thrilled to have just shaken John McCain's hand at a town-hall meeting in Kansas City, Missouri. She's a Democrat, who supports Barack Obama because she thinks it is "time for a change". But both of them agree that America's star is fading.

"We were always optimistic when we were young. We thought that every year, things would get better," says Mrs Brende. But now: "The bubble has burst. I think my generation [will be] the last to see a great America." Her husband agrees. Standards are falling in schools, he frets. Young people are finding it harder to get ahead. "We've all been so greedy for so long and it has caught up with us," says Mrs Brende. She hopes that Mr Obama may be able to do something about the national malaise, but fears that "It's too late. The slide is on."

Asked about their own lives, however, the Brendes are rather more cheerful. "We're OK, financially," says Mrs Brende. She is a travel writer; her husband is a doctor. They live half the year in Missouri and half in Mexico. They have 24 grandchildren and another on the way. Life could be a lot worse.




Regardless of their political beliefs, American voters are in a horrible mood this year. Democrats are sick of George Bush. Republicans are sick of the Democrats running Congress. Everyone worries about Iraq, either because they think the war should never have been fought, or because of the long, costly and thankless slog it has turned into. The latest violence in Afghanistan is depressing. The culture war grinds on: America is slouching towards Gomorrah or theocracy, depending on your viewpoint. The earth is either cooking or being overrun by eco-fanatics. And the American economy is tottering.

The polls tell a dismal tale. Only 29% of Americans approve of the president. Only 14% approve of Congress. And just 6% view the economy positively. Yet many

Americans combine despondency about the big picture with personal contentment. More than 80% say they are satisfied with their own circumstances. Even more are satisfied with their jobs. And although nearly everyone despises Congress, most Americans like their own representatives.

How to reconcile these stark apparent contradictions? Some blame the media for overhyping gloomy news. Phil Gramm, a former senator from Texas and adviser to Mr McCain's campaign, told the *Washington Times* that: "We have…become a nation of whiners. You just hear this constant whining, complaining about a loss of competitiveness, America in decline…Thank God the economy is not as bad as you read in the newspaper every day."

He had a point. American headlines are crammed with words like "failure", "hurting" and "Fannie Mae". Foreign pundits sound even more bearish, and one sometimes detects a hint of gloating at the hyperpower's distress. "The Great Depression," thundered the front page of the *Independent*, a British newspaper, in April. The story underneath was about an increase in the demand for food stamps, after an effort to publicise their availability.

Amity Shlaes, the author of a history of the Great Depression, thinks the comparison absurd. During the 1930s, she notes, "people lost their homes even though they had borrowed only 10% of the purchase price." People losing their homes today often borrowed more than 90%. And today's unemployment rate, though rising, is 5.5%. In the Great Depression, it peaked at 25%.

Most Americans think their country is in a recession. But, buoyed by exports, output has yet to shrink for a single quarter. Mr Gramm suggested that his compatriots are suffering a "mental recession" rather than a real one. The McCain campaign tossed him under the Straight Talk Express, which was harsh but politically wise. For the figures miss an important point: consumers are facing a nasty squeeze, hit simultaneously by soaring costs for petrol, food and health care, tumbling house and share prices, tighter credit and flagging wages. Both candidates hear voters complaining about these things all the time. And since neither of them is a fool, both crack their cheeks trying to sound sympathetic.

Petrol prices, despite their recent retreat, hurt nearly everyone. Adam Julch, an enormous former college football star who is now a manager at a trucking firm in Omaha, Nebraska, complains that he had to trade in his pickup truck for a little Honda Civic. "I'm 350 pounds," he says, "I feel like I'm in a clown car."

Soaring energy costs have sent the overall inflation rate to 5%—higher than it was in 1992, when angry voters threw out George Bush senior. Average hourly pay is falling in real terms. Meanwhile houses, most Americans' biggest asset by far, are tumbling in value at a pace that exceeds that seen in, yes, the Great Depression. The S&P/Case-Shiller index of national house prices is down 16% from its peak, and judging by the overhang of unsold homes, has a lot further to fall. Asset deflation coupled with consumer-price inflation is a powerful recipe for political discontent.

In Prince William County, Virginia, for example, house prices fell by 31% in the year to May and one home in 111 is in foreclosure. During the boom years, lenders offered mortgages to people with no cash for a deposit and no documents to prove a steady income, sighs a local real-estate agent. When these borrowers lost their jobs—and some were in the construction business, which has nosedived—many simply walked away from their homes.

## Bankruptcies and bargains

In the worst-hit neighbourhoods, such as Dale City, the foreclosure signs are everywhere. "People don't want to buy round here because they see all these empty houses and wonder what's wrong with the area," says Ed Moore, an air force veteran who supports Mr McCain. "Things are going badly," says John, who owns a struggling local construction business and supports Mr Obama but prefers not to advertise the fact to his clients.

Both men are grumpy, but both reckon they will cope. Mr Moore's home has lost much of its value, but since he plans to stay in it "till they put me six feet under", he is not unduly bothered. John plans to quit construction, move to Texas and get into publishing. He is a college dropout, but reckons that "if you do some research, you can make a lot out of nothing" in America.

Meanwhile, others see an opportunity in Dale City's collapse. Jessica Lofiego, a mother of two, is scouring the neighbourhood for a bargain. At the height of the boom, she says, normal families couldn't afford a

nice place this close to Washington, DC. Now, she's looking at a spacious 3-bedroom house that someone is trying to unload for $149,000.

History suggests the housing slump will last for a while. A study of post-war housing busts by the IMF found that they typically last four years and involve a loss totalling 8% of a year's output. Inflation, meanwhile, could slow if commodity prices stabilise. But given rapid, commodity-intensive growth in emerging economies, the underlying price shift—where American consumers spend relatively more of their income on food and fuel—is here to stay. Small wonder they are sour.

The malaise stems in considerable part from a feeling that individuals have become more vulnerable to forces beyond their control. The American can-do spirit is not dead, of course. Laid-off workers are finding new jobs, motorists are driving less and cooks are trawling the internet for recipes to jazz up the leftovers in the fridge.

But some shocks are hard to adjust to. The American suburban idyll of big homes and big gardens relied on cheap petrol. With gas prices high, many suburbanites yearn for a shorter commute. But they cannot quickly or easily sell their homes and start living in denser clusters with better public transport. Nor is it clear that they want to. So they suffer, and pray for petrol prices to fall. Sometimes literally: Rocky Twyman, a community organiser from Maryland, leads group prayers at petrol stations to beg for divine intervention.

America's costly but leaky health-care system aggravates several other problems. Soaring health-insurance premiums depress wages and prompt cash-strapped firms to stop covering their staff. The proportion of workers whose employers cover them fell from 65% in 2001 to 59% in 2007. And the fact that most Americans still get their health insurance through their job makes them much more worried about losing it. Unemployment may be low, but if it means your children lose their health cover, losing a job is scary.

Opinion polls show unprecedented concerns about income distribution and economic mobility. Gallup finds that nearly seven out of ten Americans think wealth should be more evenly distributed, the highest fraction since the question was first asked in 1984. People are worried about inequality for good reason: real median household income has fallen since 1999, while labour's share of the national pie has shrunk. The squeeze on labour could be cyclical: between 1997 and 2001, workers' share of national income rose; now it is back where it was in 1997. But the earnings gap between the most-skilled workers and everyone else has been widening since the early 1980s. And in recent years the gains to the top have taken off while most people have stood still, or even fallen back, though the squeeze was partly mitigated by differing spending patterns (see article).

Figures collated by Emmanuel Saez, an economist at Berkeley, make the point starkly. In the 1990s, the incomes of the richest 1% of taxpayers went up 10% a year in real terms (see chart), while those of the other 99% grew at an average annual rate of 2.4%. Between 2002 and 2006 the richest 1% saw 11% annual real income growth: everyone else got less than 1%. Three-quarters of the gains from the Bush expansion went to 1% of taxpayers, who now receive a larger share of overall income than at any time since the 1920s.


Technology is probably the main culprit, but Americans prefer to blame trade. The latest Pew Research Centre survey of global attitudes found that only 53% of Americans think trade is good for their country, down from 78% in 2002 and lower than in any of the other 23 countries included in the survey.

The depth of gloom varies by age. The baby-boom generation (people aged 43-62) are glummer than the young or the elderly, according to Pew. Some 55% of boomers think it unlikely that their income will keep pace with the cost of living in the next year, compared with 44% of 18-42-year-olds and 43% of those aged 63 or more. Many boomers look after children and crumbling parents simultaneously.

Americans have grown accustomed to extraordinary prosperity. Poor Americans today are more likely to have fridges, dishwashers and air-conditioning than average Americans were in 1971. Young voters have no memory of a serious recession, since the last one was in the early 1990s. Some do not even realise

that cyclical downturns are normal. Only 18% of Americans think they are worse off than their parents were at the same age. But elections hinge on shorter-term concerns. Four-fifths of Americans say it is harder to maintain a middle-class lifestyle now than it was five years ago. That probably means the election is Mr Obama's to lose.

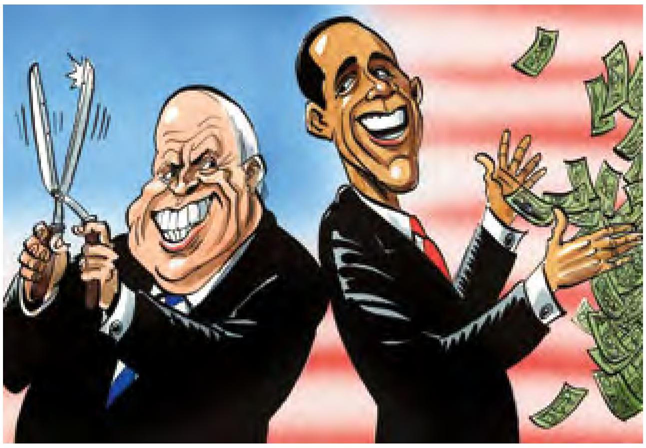
The economy: the solutions

# It's the economy again, stupid

Jul 24th 2008 | WASHINGTON, DC
From The Economist print edition

**John McCain and Barack Obama are offering profoundly different prescriptions, though economic and political realities will limit their ambitions**

Illustration by Peter Schrank



SIXTEEN years ago an American presidential election was fought against the backdrop of a weak economy and a grumpy electorate. In 1992, in the shadow of a recession and with Americans worried about their living standards, their health care and their country's ability to compete, a charismatic young Democrat won by focusing on middle-class America's economic angst and excoriating the "failed" policies of the Reagan and Bush eras. Candidate Bill Clinton promised an activist government that would tilt the scales towards workers, pledging wholesale health-care reform, big increases in public investment, tax cuts for middle-class families and higher taxes on the rich.

But the reality of Clintonomics was more centrist and less ambitious than promised. Taxes did go up for the rich, but large public investment plans were quickly ditched in favour of deficit reduction. His (or rather, his wife's) health-care scheme famously collapsed. In 1996, facing a Republican Congress, he declared that "The era of big government is over." And by the middle of the decade, Americans' malaise was morphing into triumphalism as productivity accelerated, unemployment fell and wages rose across the board.

One of the biggest questions facing America today is whether this dynamic is about to be repeated, whether the status quo will continue, or whether the country is on the brink of a more radical shift to the left. Once again, the economy is at the forefront of a presidential election and Americans are grumpy—grumpier, in fact, than they were in 1992. What's more, compared with 1992, voters face a starker economic choice. Though Barack Obama and John McCain sound similar on some big issues, mostly green ones, their economic philosophies are quite different.

Mr Obama promotes a more ambitious version of candidate Clinton's 1992 vision of activist government, with a dose of belligerent trade talk added on. He wants to spend money on public investment (primarily on infrastructure and alternative fuels); he has an ambitious and expensive plan for near-universal health-care coverage; he promises tax cuts for working Americans and sharply higher taxes for rich folk. During the primaries he threatened to pull out of the North American Free-Trade Agreement (NAFTA) unless it was renegotiated.

Mr McCain, in contrast, is a staunch free-trader, arguing that America should be pushing for more trade deals, not shrinking from existing ones. On domestic policy, he sounds more radical than George Bush senior ever was—and than he himself has been in the past. Gone are Mr McCain's long-standing worries about the wisdom of cutting taxes at the top. Instead he now offers the traditional Republican recipe for growth: tax cuts, freer markets and minimal government. Though he opposed George Bush's tax cuts, he

now wants to make them permanent and add more. Rather than extend government's reach in health care, he wants to free up insurance markets and cut costs.

These differences have allowed the two campaigns to paint America's economic choice in dramatic terms. Republicans attack Mr Obama as a rank protectionist and big-spending liberal, who promises the biggest tax hike since the second world war. Democrats deride Mr McCain as an even more reckless tax-cutter than the current president, a man who will bust the budget and tilt the playing field even further against ordinary workers. But things are not exactly as they seem.

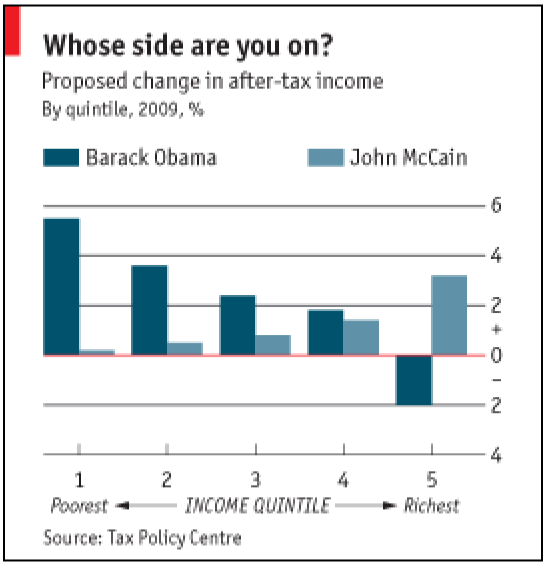
For anyone outside the country, the stakes appear highest on trade policy, particularly since the Democratic Party has become noticeably more sceptical since the Clinton era. Look carefully, however, and 2008 is unlikely to mark as big a watershed as many fear. Mr McCain is a commendably committed free-trader. He also wants to overhaul America's safety net for those who lose out, promising to revamp unemployment insurance, streamline retraining programmes and provide more wage insurance for older workers. But the odds of more trade deals are slim. Regardless of the outcome of America's election, the Doha trade round is on life support. And at home a President McCain would almost certainly face a Democratic Congress that is chronically suspicious of trade deals, even those with sops for the losers.

By the same token, Mr Obama is less likely to pander to his party's protectionist wing than his primary rhetoric suggests. Within days of winning the nomination his tone changed. He told *Fortune* that his attacks on NAFTA were "overheated and amplified"; he wanted to "open up a dialogue" with Mexico and Canada, but disavowed the idea of unilateral withdrawal. An Obama presidency would doubtless bring more sabre-rattling than Mr McCain on everything from China's currency to the need for environmental and labour standards, and Mr Obama may face troubles of his own from Congress. But a look at his advisers, and his recent speeches, suggests a moderate approach.

## Of taxing and spending

What about the faultlines on domestic policy? There, too, the differences shrink a bit on closer inspection. Mr Obama would doubtless tilt the regulatory environment to the left (pushing up the minimum wage again and signing laws to make union organising easier, for instance). Both candidates are likely to favour more government involvement in areas from housing to financial regulation. Both have talked, for instance, of regulating oil-futures trading. But neither candidate proposes a huge shift in the reach of government. Calculations by the Tax Policy Centre suggest that Mr McCain's tax plans would reduce the federal tax take to 17.6% of GDP by 2018, while Mr Obama's would yield 18.5%. America's post-war average is around 18%.

Nor is either candidate proposing serious tax reform. The expiry of Mr Bush's tax cuts in 2011 offers the opportunity to rewrite America's labyrinthine tax code in a way that could be both progressive (as Mr Obama wants) and pro-growth (Mr McCain's concern). But while Mr Obama has plans to simplify tax filing and Mr McCain talks vaguely of an optional alternative tax with lower rates and a broader base, neither really focuses on reform.




Both candidates take the framework of the Bush tax cuts as given. And both measure the effects of their tax and spending plans not against current law (which has Mr Bush's tax cuts expiring by the start of 2011) but against a world in which the cuts are all extended. Compared with that "baseline", Mr Obama's scheme raises some $800 billion over the next decade—all of which he then spends on health care, infrastructure and other programmes.

Mr McCain's tax cuts, in contrast, would reduce tax revenue by about $600 billion over ten years. He "saves" that money by promising to get tough on spending. Indeed, he says he can balance the budget by 2013. Although Mr McCain has some credibility as a small-government conservative—he was one of the few who voted against Mr Bush's reckless expansion of Medicare and, unlike Mr Obama, has consistently opposed farm subsidies—he offers few details on how this might be achieved. His speeches are peppered with pledges to get rid of earmarks (spending tagged for politicians' pet projects). But since all earmarks add up to less than $20 billion a year, that will not

yield much. For his numbers to add up, not only would discretionary spending need to be slashed from its current level of 7.6% of GDP, but spending on entitlements, such as Social Security and Medicare, would need to be cut too. If Mr McCain wants to do that, he has kept quiet about it.

Since both candidates score badly on reform and fiscal prudence, the tax debate is really about distribution within the current tax structure: and here there genuinely are big differences. Mr McCain's recipe is simple. He wants to keep all the Bush tax cuts (except eliminating the estate tax) and add a few more. His plan doubles the size of the tax exemption for dependants. In his speeches he promises to abolish the Alternative Minimum Tax (a secondary system designed to prevent wealthy people avoiding tax, which now hits millions of taxpayers), though the campaign's fine print suggests patching rather than eliminating it. And, most of all, he wants to cut corporate taxes. The top rate of corporate income tax is to fall from 35% (one of the highest in the world) to 25%. Firms would be allowed to deduct immediately the cost of all spending on long-term equipment rather than depreciate it over time.

Mr Obama also wants to keep many of the Bush tax cuts that primarily benefit the 98% of households that make less than $250,000 a year. He then adds an array of new tax cuts for those at the bottom and middle. Some make sense, like a big expansion of the Earned Income Tax Credit, which tops up the earnings of poor workers. Others, such as getting rid of income taxes for old people making less than $50,000 a year, don't.

To pay for this largesse, and for his long spending wish-list, Mr Obama promises to raise huge sums from closing tax loopholes. He also pushes up tax rates at the top. America's top rate of income tax will rise from 35% to 39.5%, its level at the end of the Clinton era. The capital-gains tax rate will rise from 15% to between 20% and 28%. "Carried interest", the returns made by private equity and hedge-fund partners, will be taxed as ordinary income, rather than capital gains.

Separately, Mr Obama has also suggested that he would help fix Social Security's finances by raising the payroll tax on households earning more than $250,000 a year. (Today, the 6.2% payroll tax contributions made by both workers and employers stop at earnings of $102,000.) How much he would raise it is not clear. Adding on the full 12.4% would effectively take top marginal tax rates above 50%. Mr Obama offers no details, but his advisers hint that any rate rise would be much lower.

Exactly how these plans shift the tax burden is not obvious—who gains from a corporate tax cut, for instance, depends on whether lower corporate taxes merely boost shareholders' returns or also bring higher wages. But the big picture is clear. Both candidates cut taxes for all but those at the very top. For the richest fifth of the population, Mr McCain brings a lower tax bill than Mr Bush did while Mr Obama plans a big rise from the Bush years.

But whether that rise marks a watershed is less obvious. Though the level ends up the same, the rise in the top marginal income tax rate that Mr Obama is proposing is smaller than that signed by Bill Clinton in 1993 (which took the top rate of tax from 31% to 39.6%). And analyses of that hike seem to suggest that while it had a big short-term effect on revenues, there is little evidence of large, permanent damage to incentives.

The uncertainty with Mr Obama lies with the payroll tax. He has all but ruled out raising the retirement age or cutting pensions to plug the gap in America's public pension system. The gap cannot be filled simply by raising taxes on the top 2%. But if raising taxes on rich people is Mr Obama's only route to dealing with America's pensions problem, he will be far from an economic centrist.

## A healthy debate

The main area where an Obama presidency could mark a break from the past is health. His plan is a version of the Democratic consensus: to provide near-universal coverage through subsidies, expanded government health schemes, a regulated insurance exchange, tough rules on whom insurance companies must insure, and taxes on employers who do not provide health coverage. Mr Obama has plenty of ideas for cost control, but his main aim is expanding coverage—at a cost of some $50 billion-65 billion a year, though some estimates run much higher. Mr McCain's focus, in contrast, is cost control and competition. He wants to loosen the rules on insurance companies and end the preference for employer-provided health care. Everyone would get a $2,500 refundable tax credit to buy health insurance.

The staunch opposition of an (almost certainly) Democratic Congress makes it hard to see Mr McCain's vision enacted. His plans are a somewhat improved version of those that Mr Bush has proposed, in vain,

for several years. For Mr Obama, the headwinds are less likely to be political than economic. Getting a comprehensive and ambitious health-care plan through Congress will be an enormous undertaking. But a prolonged bout of economic weakness will sap the budget and divert focus from such far-reaching reform.

All told, the contours of the business cycle may be the main influence on whether 2008 proves a big turning-point for economic policy. Mr Obama's tax increases will seem more risky if demand is weak. Whoever is president will be more focused on short-term palliatives than big policy change. Paradoxically, voters' grumpiness may be a spur for radical change. But, just as in 1992, economic weakness may drive both sides to the centre.

The netroots

# Don’t mention FISA

Jul 24th 2008 | AUSTIN
From The Economist print edition

**The online activists are angry with Barack Obama. But only a bit**

AP


**Who tweeted me?**

IT WAS summer and it was Austin, where keeping things weird is a popular civic pastime. But for the 2,000 bloggers and readers at last weekend’s Netroots Nation, the mood was more wonkish than wild. The “netroots”—the online version of “grassroots” political activists—spent hours in panels on policy and technology, and kept up running analyses via blogs and Twitter. They allowed themselves to be plied with margaritas of an evening, but made it back for a morning question session with Nancy Pelosi, the speaker of the House of Representatives, and a surprise visit from Al Gore. Ms Pelosi faced some grumbles; if your Congress has an approval rating of 14%, a friendly face is hard to find. But when a handful of women from the anti-war group Code Pink, wearing superhero costumes, stood up to shout for peace they were quickly escorted from the premises. The tweets on Twitter were swift and stern. “Don’t want to disrespect but code pink is so 1960,” wrote one.

For many on America’s left this has been a month of discontent. Since securing the Democratic nomination in June, Barack Obama has annoyed core supporters at several points. He announced that he would support expanded funding for faith-based initiatives and hemmed and hawed when the Supreme Court overturned the District of Columbia’s gun ban. Neither of those should have been a surprise, given that he campaigned on a post-partisan platform. His decision to opt out of public financing was a more egregious flip-flop. But most of the netroots, who pride themselves on raising money for candidates, give him a pass on that one.

The cruellest cut came on July 9th, when Mr Obama voted for a new Foreign Intelligence Surveillance Act (FISA). This gives the executive new powers of warrantless wiretapping and provides retroactive immunity for telecoms companies that worked with the Bush administration to spy on Americans. During the primaries, he had promised to support a filibuster against such a provision.

The netroots tend to overestimate the political impact of the FISA vote. During one session they discussed how to defuse the issue should it ever come up on the door-knocking circuit, although most voters are more concerned with petrol prices. And Mr Obama’s vote made no practical difference; two-thirds of the Senate voted for FISA. But the netroots are fair to criticise him for it. “It’s a candidate-killer for me,” blogged Roseanne Cahn.

This has given Mr Obama’s opponents false hope. Bob Barr, the Libertarian candidate, was also in Austin to speak at a smaller gathering of right-wing bloggers. He bought a day pass to Netroots Nation and stopped by in an effort to rustle up votes. He was greeted with amused interest. But Mr Obama does not have to worry about many defections, at least judging by the crowd in Austin. “There is an enormous and vast ocean of difference between Obama and McCain,” says Ali Frick. “He’s clearly the only choice we’ve got in this race,” said Randy Shields. Tom Schrandt, who is from a conservative town near Dallas, took it one step further: “We’re going to have to meet somewhere in the middle to make the country work.”

Lexington

# A lucky man

Jul 24th 2008
From The Economist print edition

**Barack Obama's trip abroad has been going better than he could have dared hope**

Illustration by Peter Schrank


THIS week Americans have been bombarded with images of Barack Obama posing as the commander-in-chief. Mr Obama standing shoulder-to-shoulder with world leaders. Mr Obama flying in a helicopter over Iraq with General David Petraeus. Mr Obama shooting hoops with the troops. Mr Obama boarding a jumbo jet with his name emblazoned on the side. And John McCain? He was photographed on a golf cart with the 84-year-old George Bush senior.

Mr Obama's carefully choreographed trip was clearly designed to address his biggest weakness—his wafer-thin CV on foreign and military affairs. He had not visited Iraq since January 2006. Before this week he had never visited Afghanistan, the country that he describes as the front-line in the war on terror. He has not served in the army. In polls Mr Obama lags behind Mr McCain by some 20 points on the question of whether he has the experience to do the job.

But Mr Obama's trip was designed to do more than address a weakness. It was designed to turn a weakness into a strength. Mr Obama wants to prove that he represents a new kind of leadership, as different as you can get from that of Messrs Bush, Cheney and Rumsfeld. This means demonstrating that he can offer new solutions to vexing problems in the Middle East—hence the first half of his trip. It also means demonstrating that he can wield America's soft power effectively—hence his triumphalist romp through Old Europe. An Obama spokesman summed up the trip's implicit message simply: "When President Bush goes abroad, there are big crowds protesting. When I go abroad, there are big crowds cheering."

This was the boldest move in a campaign marked by bold moves. Democrats usually adopt a defensive crouch when it comes to foreign policy. Bill Clinton and Al Gore all but ignored it in their runs for the presidency. John Kerry wore his service in Vietnam like a shield. But Mr Obama has marched into Republican territory with his head held high.

It was also a risky move. There was the risk of looking presumptuous. Presidential candidates do not usually fly around the world in their own personalised versions of Air Force One. There was the risk of crossing the line between talking to foreign leaders and negotiating with them. And there was the risk of a gaffe; Michael Dukakis never recovered from looking silly in a tank.

But these worries have been silenced by events. The decision of the Iraqi prime minister, Nuri al-Maliki, more or less to endorse Mr Obama's timetable for withdrawing American troops from Iraq sent shock

waves through Washington, DC, discombobulating the White House and driving the McCain campaign into panic. And the resurgence of the Taliban in Afghanistan underlined Mr Obama’s argument that America needs to devote more resources to the country that nurtured Osama bin Laden.

Even the Bush administration played into Mr Obama’s hands. It signalled its willingness to work with the Iraqis on a “time horizon” for troop withdrawals. And it dispatched a high-ranking State Department official, William Burns, to participate in multilateral talks with Iran over its nuclear programme. Mr Obama had made talking to Iran a centrepiece of his campaign, something the Republican right has fiercely resisted.

Mr Obama still has problems with his Middle East policy. He loudly opposed the “surge” that has clearly helped to stabilise the country and has made all the heady talk of a timetable for withdrawing American troops possible. Many American military commanders, including Michael Mullen, the chairman of the Joint Chiefs, and General Petraeus, worry that a 16-month timetable may destabilise the country, as do lots of Iraqis.

Still, there is no doubt that this week has seen the balance of advantage shift in Mr Obama’s direction. Mr McCain’s ace in the hole has been his claim that his opponent is too naive and inexperienced to be trusted with the big decisions—that he will withdraw precipitously from Iraq to satisfy his liberal base and thereby undermine America’s war on terror. But Mr Obama can now claim some vindication. The Iraqi government has seemingly moved closer to the central tenet of his foreign policy. And the facts on the ground in Afghanistan give credence to his original objection to the Iraq war, that it was distracting attention from the real front-line in the war against terrorism. He also stepped through Israel and the West Bank with a fair degree of agility. This was the riskiest part of his tour, and it went off without running into serious problems.

## Showing him up

Mr Obama’s progress has been making the McCain campaign look even more flat-footed than usual. Mr McCain added to the misery this week by making another in a long list of foreign-policy slips of the tongue by referring to the “Iraq-Pakistan border”. And a campaign ad blaming Mr Obama for the rising price of oil was met with widespread ridicule. The McCainiacs have resorted to lashing out at the media’s liberal bias: a complaint which is perfectly justified. Even before three news anchors accompanied Mr Obama on his trip, the networks had devoted twice as much coverage to the Democrat as the Republican and much the same is true of newspaper column-inches. But it is the complaint of defeated conservative campaigns the world over.

Mr McCain may yet prove to be a more formidable candidate than he now seems. He is still only an average of two points behind Mr Obama in national polls, a remarkable result given his shambolic campaign. But he needs to introduce more order into the chaos that surrounds him. And he needs to do a much better job of defining his opponent rather than allowing his opponent to define himself, which will mean recalibrating his arguments about Iraq as well as sharpening his tone. This week has made that job a lot harder.

**Argentina**

# Et tu, Julio?

Jul 24th 2008 | BUENOS AIRES
From The Economist print edition

AP

**The president suffers a heavy defeat at the hands of her number two**

WHEN Cristina Fernández de Kirchner selected a turncoat member of the opposition Radical party as her running-mate in her successful campaign for Argentina's presidency last year, the choice looked like a canny ploy to win votes beyond her Peronist party's working-class base. Ms Fernández's assumption that her vice-president, Julio Cobos, would show more loyalty to her than he did to the Radicals now appears to have been an act of hubris. As vice-president, Mr Cobos had the tie-breaking vote in the Senate on a crucial tax bill backed by Ms Fernández. On July 17th he voted against his own government, dealing a debilitating blow to her eight-month-old presidency.

Ms Fernández has spent the past four months in a fierce battle with Argentina's farmers. They launched a campaign of strikes and roadblocks after the government raised taxes on soyabean exports to nearly 50%. The public backed the farmers and the president's approval ratings tumbled. But Ms Fernández and her combative husband, Néstor Kirchner, who preceded her as president and now runs the Peronist party, refused to reach a compromise and lower the taxes.

The two sides were locked in stalemate until the Supreme Court—a majority of whose judges were appointed by Mr Kirchner—said that it would rule on whether the taxes, which were implemented by diktat rather than by legislation, were constitutional. To avoid a judicial rebuke and to defuse the protests against her, which have taken the form of the noisy banging of pots across the country, Ms Fernández asked Congress to ratify the levies last month.

This was a miscalculation. Ms Fernández underestimated the pressures on her party's legislators from the rural provinces, where voters were staunchly opposed to the taxes. Despite holding comfortable majorities in both houses, her block in Congress had to establish a costly scheme of payments for small farmers to win a close vote in the lower house. The bill then passed to the Senate, where a stampede of defections from Ms Fernández's supporters produced a 36-36 draw.

The decision thus fell to Mr Cobos, whose relationship with the president had become frosty. Ms Fernández had barely spoken to him in a month. The beleaguered vice-president all but apologised to her as he cast the vote that handed her the defeat. "The Argentine president will understand me," he said, ""because I think that a law that doesn't provide a solution to the conflict won't achieve anything…I ask

forgiveness if I am wrong." Forgiveness has not been forthcoming: on July 21st, Ms Fernández had six officials loyal to Mr Cobos sacked.

Ms Fernández's defeat marks a turning-point both for her government and for her country's fragile system of checks and balances. Mr Kirchner brooked no challenges to his authority as president, treating dissent as indistinguishable from treason. Argentina's Congress has rarely been strong enough to put meaningful limits on the executive. Traditionally, influential provincial governors have instead served as the primary counterweight to the presidency. But Mr Kirchner cowed them too during his four years in office, thanks to high approval ratings and an ample budget surplus, which gave him an unusual amount of freedom to direct spending to supportive regional officials.

Until the defeat, Ms Fernández had mimicked his hectoring style, repeatedly accusing the farmers of seeking to topple her government. Mr Cobos's vote should undermine this way of governing. Unlike her husband, Ms Fernández is now unpopular (her approval rating is just 20%) and her government is short of money (soaring public spending has depleted the treasury). She faces a legislature that has ceased to be a rubber stamp and provinces that will no longer tolerate the central government in Buenos Aires appropriating their wealth.

## How to silence the saucepans

Something of the new landscape has been revealed in the week since the vote. On July 18th Ms Fernández issued a resolution reducing the export taxes to their previous level. She has reverted to Peronist type, announcing that Aerolíneas Argentinas, a crumbling airline, would be nationalised after nearly 20 years as a private company. A week later her cabinet chief, Alberto Fernández (no relation), resigned. Mr Fernández was her closest aide, de facto press spokesman, and chief negotiator in the failed talks with the farmers.

Ms Fernández has three-and-a-half years left of her term, and so it is too early to write her political obituary. The opposition remains weak and divided. Yet Mr Kirchner has bequeathed her a formidable list of problems: a pliant, little-respected cabinet; a doctored price index which reflects less than half of the true rate of inflation (which is around 25%); a mixture of subsidies and price controls in energy and transport that have discouraged investment and strained public finances; and a sprinkling of corruption scandals.

Add this defeat and Ms Fernández is now faced with a choice: either break with the policies of her husband less than a year after he handed over the presidency to her, or live the next four years of her first term as the longest-serving lame duck in Argentina's recent history. Ms Fernández campaigned as a moderate consensus seeker. She will need to start governing like one if she hopes to salvage her presidency.

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THE AMERICAS

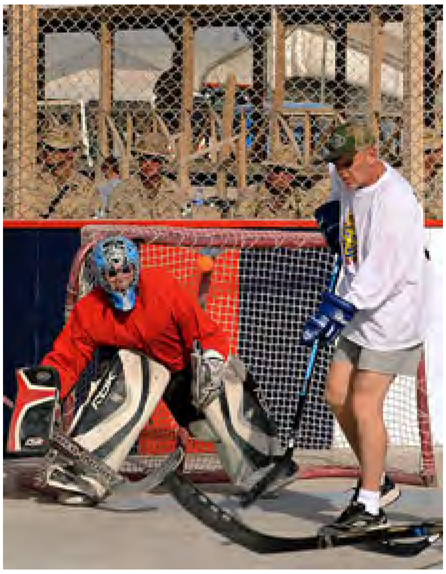
**Canada's military**

# Hockey sticks and helicopters

Jul 24th 2008 | OTTAWA
From The Economist print edition

**How a general made Canada more comfortable with fighting wars**

AFP



**Coming to a battlefield near you**

“WE ARE not the public service of Canada,” General Rick Hillier once told journalists. “We are the Canadian Forces and our job is to be able to kill people.” Such a robust view of military power was unusual when General Hillier was appointed chief of the defence staff. In the three years he spent in the post before stepping down earlier this month, he almost succeeded in making it mainstream.

Canadians have often seemed more comfortable with an army that puts up tents and dishes out aid than with one that actually shoots people. The reasons for this are partly historical: the Liberal Party, which ruled Canada for most of the second half of the 20th century, drew much of its support from Quebec, where a dislike of military adventures dates back to the days of the British empire. Defence spending was frozen in the 1970s and 1980s, and then cut back in the 1990s.

Bucking this history, Canada announced in 2005 that it would assume NATO responsibility for providing security in Afghanistan’s Kandahar province and sent 2,000 soldiers to do the job. The task of selling the deployment of these troops fell to the plain-speaking general. The Taliban and Osama bin Laden were, he explained, “detestable murderers and scumbags” who should be hunted down.

To keep public opinion on his side, General Hillier made regular appearances on television accompanied by Afghan veterans, bringing him a level of fame previously unknown for an army officer in Canada. He took ice-hockey players to visit the troops and installed an all-Canadian doughnut shop on the army’s base in Kandahar. The election of the Conservatives in January 2006 made the task easier, providing strong political support for the intervention in Afghanistan. Even with the number of casualties rising (the 88th Canadian soldier was killed there on July 18th), Parliament has approved a two-year extension to the mission until 2011.

Money has followed. The government has acquired over 100 second-hand Leopard 2 tanks, four Boeing C-17 heavy transport aircraft, 17 Hercules planes and made a commitment to buy 16 Chinook heavy-lift helicopters. The navy has not been left out, with a C$1.1 billion ($1.1 billion) refit for a dozen frigates and a C$2.9 billion contract for three ships to support army operations. There is even a plan for a naval port in Nanisivik, in the territory of Nunavut, and up to eight Arctic patrol vessels to fly the flag in the increasingly ice-free far north. In May Stephen Harper, the prime minister, unveiled a new defence strategy called Canada First, with a pledge to increase the annual budget for the military by two-thirds over 20 years.

General Hillier’s successor, Walter Natynczyk, has so far shown a less sure touch. When visiting troops in Kandahar recently he first played down the violence in the region and then conceded that things were in fact getting worse. He also has some unfamiliar problems to deal with. Soldiers are worn out after repeated tours and the army is having trouble retaining them and recruiting suitable replacements. So much so that they have begun to look for recruits in unlikely places. A Canadian Forces recruiting booth at Toronto’s gay pride festival was a surprising first.

**Energy reform in Mexico**

# Crude and oily

Jul 24th 2008 | MEXICO CITY
From The Economist print edition

**A controversial referendum and the future of the state oil company**

IN HIS farewell address, George Washington gave warning of the dangers of political parties. Whenever possible, he said, each party would "make the public administration the mirror of the ill-concerted and incongruous projects of faction." Mexico's state-run oil company, Pemex, is accustomed to being the victim of ill-concerting, probably because it provides close to 40% of the government's revenue. It is also in decline. Since 2005, daily production has dropped more than 300,000 barrels per day, or some 10% of the total. Reserves have been falling since the mid-1980s.

Since the beginning of the year, Mexican politicians have been wrapped up in a debate about how to revive Pemex, which controls all aspects of petroleum in Mexico, from offshore exploration to the pump. It is riddled with wastefulness. Mexico has to import over 40% of its petrol because of a lack of refining capacity. It then resells it at subsidised prices to the public. Some $20 billion will be spent on the subsidy this year. It is hard to get rid of, both because of the direct political impact that ending it would have and because of fear of provoking inflation.

All parties agree that things look bad. There is also some consensus that deepwater exploration of the type that has been so successful in Brazil is now necessary. But there is no agreement on how to fund it, or where to get the technical expertise for deepwater drilling from. This wrangling reveals much about Mexico's underlying thinking about the respective roles of the state and the private sector.

The country's constitution states that the petroleum industry is the exclusive province of the state. The centre-right government of Felipe Calderón decided not to attempt to change this, reckoning that the secondary laws that spell out what the constitution means allow enough wiggle room for its plan.

Mr Calderón proposed a package of reforms in April after months of behind-the-scenes negotiation with the Institutional Revolutionary Party (PRI), a centrist opposition party that had been his ally in previous reforms to the state pension system and the public finances. Mr Calderón wants incentive-based contracts for deepwater exploration, to allow private industry to build refineries, and to make a series of changes to Pemex's corporate structure that would give it more autonomy while remaining part of the government.

The opposition dislikes even this limited involvement of the private sector. It can draw on popular antipathy towards the privatisation of banks and telecoms, which left assets in the hands of a small number of wealthy people and did not always result in the promised vigorous competition. Besides, argues Francisco Javier Castellón Fonseca, a senator in the opposition Party of the Democratic Revolution (PRD), the oil price is so high that private capital is hardly necessary. Despite being split by an internal struggle over the party leadership, the one thing that unites the various factions of the PRD is opposition to the government's plan.

Not all of the debate has been so high-minded. Much of it has been driven by political posturing, with each party trying to stake out a favourable position for the mid-term elections to be held next year. Mr Calderón had hoped to get a reform passed quickly. This was stymied by the opposition PRD, which seized the floor of the Chamber of Deputies and forced Mr Calderón and the PRI to subject the reform to several months of expert testimony in the Senate.

This process came to an end on July 22nd. To keep the brakes on the changes, the opposition is now organising a series of unofficial referendums on the government's proposal and on privatisation. The first will be on July 27th in Mexico City and nine states, with two more rounds to follow on the August 10th and 24th. These votes will have no legal standing but they do have the power to irritate the government. The referendum "is an action that cannot be recognised if we live under the rule of law," says Jordy Herrera, the under-secretary of planning in the energy ministry. "The only goal of the referendum is to

divide Mexicans." Turnout is likely to be low, and those who do vote will almost certainly reject the government's proposals by an overwhelming majority.

Despite the president's high approval ratings, Ricardo Samaniego of ITAM, a university in Mexico City, says that Mr Calderón now needs to make a calculation as to how much he is willing to dilute his reform. In any case, the plan will not be approved wholesale when Congress reconvenes in September. César Hernández of CIDAC, a think-tank in Mexico City, reckons the president may be ready to compromise. "I believe the government is willing to invest political capital even in a mediocre reform," he says.

That would at least allow the government to declare victory and move on to the 2009 elections. The outcome of Mexico's energy reform therefore looks like being just the sort of thing that George Washington warned against. Perhaps next time the oil company should try reforming the parties instead.

**Venezuela and Cuba**

# Parrot diplomacy

Jul 24th 2008 | CARACAS
From The Economist print edition

**Having rescued Cuba with cheap oil, Venezuela is to be paid back in zebras**

SOON after Fidel Castro seized power in Cuba in 1959, goes an old Cuban joke, the signs at the Havana zoo that read “Please do not feed the animals” were changed to “Please do not take the animals’ food”. When the Soviet Union crumbled and withdrew its aid to Cuba, triggering the so-called “special period” that began in the early 1990s, times became even harder and the joke changed. The new signs, so the story went, begged visitors not to eat the animals.

For those who lived through it, the special period was anything but funny. Domestic cats disappeared from the streets and reappeared on the dinner table. The zoo population thinned out. “The peacocks, the buffalo and even the rhea [a South American bird that resembles an ostrich] disappeared,” says a Havana resident. “The hyaenas became vegetarians, the zoo was depopulated and even the tigers had only sweet potatoes and a bit of cassava to eat.”

But while the old 26th Avenue Zoo in Havana was losing its animals, the revolutionary authorities somehow maintained a safari park outside the city. Captive breeding programmes for zebras and some primates survived. And now the comrades in Venezuela, whose president, Hugo Chávez, provides Cuba with a generous oil subsidy that put an end to the special period, are to benefit from it.

The Caricuao zoo in Caracas, Venezuela’s capital, is a shadow of its former self. Its last giraffe, Napoleón, died 15 years ago. Ruperta, the last elephant, has been alone for over two years. Gone are the zebras, kangaroos and ostriches. Its director, Carlos Audrines, attributes the decline more to a “crisis of management” than lack of cash, like much else in Venezuela. But thanks to high oil prices and revolutionary solidarity, plans are now afoot to refurbish the rundown facilities and restock the zoo.

Cuba is to supply 19 animals from species of which it now has a surplus. They include a giraffe, two lions, four zebras, a rhino and a pygmy hippo. In what Mr Audrines describes as a barter arrangement (in which the Cubans seem to get the rough end), Caracas will trade them for eight macaws, two tapirs, a puma and four capybaras. Further swaps are planned. Negotiations are also under way with zoos in Moscow and Quito.

The animals from Cuba can expect the diet to be better in their new home and the visitors to be slightly more free-range. But the Venezuelan animals may not be so pleased with the deal. The puma is being kept under a green awning during quarantine to prevent an attack of nerves, say the Caricuao zoo keepers. The mood of the notoriously outspoken Venezuelan macaws on being packed off to an island where freedom of speech is a luxury can only be guessed at.

Economist.com WORLD ASIA

South-East Asia

# ASEAN and the temple of doom

Jul 24th 2008 | BANGKOK AND PULAONG
From The Economist print edition

**Modest progress on Myanmar is overshadowed by the threat of war between Thailand and Cambodia**

AFP

FOUR months ago, when Thailand's prime minister, Samak Sundaravej, visited his Cambodian counterpart, Hun Sen, the two countries seemed capable of dealing peacefully with a long-running dispute over an ancient temple on their borders. Thailand backed Cambodia's bid to have the 11th-century Preah Vihear temple listed as a "world heritage" site and both sides agreed to keep talking over their overlapping claims to a nearby patch of land.

Since then, things have deteriorated to the point where each side has sent thousands of troops to the area. This week talks between the two countries agreed no more than to try to avoid settling things by force. Cambodia asked the UN Security Council to hold an emergency meeting over what it called a state of "imminent war".

The armed confrontation between two members overshadowed this week's meeting in Singapore of foreign ministers from the Association of South-East Asian Nations (ASEAN). For all its shortcomings ASEAN had seemed at least to have banished the threat of war between its members. Now even this seems in doubt. ASEAN had hoped to trumpet its achievements over Myanmar, where relief supplies are now flowing fairly freely following cyclone Nargis in May. But the Thai-Cambodian dispute stole the show. Thailand rejected ASEAN's offer to mediate. As ever, other member countries were reluctant to press too hard. They pleaded unsuccessfully with Cambodia not to show up ASEAN's failure by pursuing its appeal to the Security Council.

For Cambodians the 900-year-old Hindu temple, perched on an escarpment, is a melancholy reminder of their forebears' once-mighty Khmer empire, which for centuries ruled much of Indochina. Thailand is still smarting from a 1962 ruling by the International Court of Justice, awarding the temple to Cambodia (but not specifying where the border should be drawn). A loose coalition of Bangkok's royalist elite, opposed to Mr Samak's government, has whipped up public outrage over its backing for the world heritage listing, which a UN committee approved this month. Thailand's Constitutional Court ruled that the government should have consulted parliament first, prompting the resignation of the foreign minister.

In recent years people on both sides have made a living trading with each other and serving tourists. Now, with the area swamped with soldiers, the headman of Pulaong, the village nearest the temple on the

Thai side, says dozens of small businesses have closed. On July 17th local shopkeepers traded punches with anti-government protesters from Bangkok.

It is hard now for either country to back down. Mr Samak cannot afford to look weak, and nor can Mr Hun Sen, who is facing a general election on July 27th. He is sure to win it but his critics accuse him of weakness in the face of Thai aggression.

Bilateral talks will resume after the Cambodian election, when it is hoped a peaceful resolution will be easier to reach. But with so many troops and weapons in the disputed area, there is the constant risk of a mishap, leading to bloodshed. In 2003 a mob burned Thailand's embassy in the Cambodian capital, Phnom Penh, over misunderstood comments by a Thai actress that were seen as asserting Thai sovereignty over Cambodia's famous Angkor Wat temple complex.

If ASEAN were unable to prevent another such accident, the world's doubts about the block's relevance would only deepen. ASEAN had hoped to recover its reputation somewhat with the publication at the summit of a report showing progress in bringing relief to Myanmar's cyclone victims. ASEAN's initial response had been slow and feeble: it could have embarrassed its rogue member's military dictators into allowing in more aid, more quickly, by making a generous and public offer of assistance that, coming from "friendly" neighbours rather than hostile Western powers, would have been harder to reject. Belatedly, ASEAN proposed a "tripartite" group—itself plus the UN and the Burmese government—to oversee relief efforts, thereby giving the regime cover to soften its opposition to foreign aid workers' presence in the devastated Irrawaddy delta.


The tripartite group's report to the summit contained fairly good news: although aid workers were only able to offer shelter to 30% of those left homeless by the storm, locals have got on with it themselves and rebuilt about 80% of the 800,000 destroyed or damaged homes. Enough medical aid has arrived to avert a much-feared outbreak of deadly diseases. A senior relief-agency official says ASEAN's involvement has eased the flow of aid workers and supplies down to the delta. But he says much of the credit is due personally to George Yeo, the foreign minister of Singapore (ASEAN's current chair), and Surin Pitsuwan, ASEAN's secretary-general, who are "pushing the envelope" of the block's rule of non-interference.

Mr Yeo said Myanmar had hinted that Aung San Suu Kyi, the country's opposition leader, might soon be freed from house arrest. Embarrassingly, his Burmese counterpart swiftly denied this. In its communiqué ASEAN used its strongest language yet to demand that Myanmar release Miss Suu Kyi and other political prisoners, and hold fair elections. But the Burmese generals know that the block is still far from taking any action to back its words. The summit sought to make progress on a new ASEAN human-rights body but the Burmese said it must not have powers to monitor or investigate abuses—only a toothless one would do.

Singapore's prime minister, Lee Hsien Loong, reminded ASEAN leaders that they had, in 41 years of summitry, honoured only 30% of the fairly modest agreements they had signed. Other, broader Asian forums are developing, he noted, posing a danger that ASEAN might be sidelined. But, as he also noted, the block's biggest members are preoccupied with domestic matters—political crises in Thailand and Malaysia, approaching elections in Indonesia and the Philippines—that leave little time for thinking about regional unity.

This year saw the end of one of ASEAN's traditional contributions to that unity—the annual cabaret at which its foreign ministers and their guests entertain each other and make fools of themselves. As host, the famously fun-loving Singaporean government dropped the event. Maybe there is not much to laugh about.

Economist.com WORLD ASIA

**Indian politics**

# A tarnished triumph

Jul 24th 2008 | DELHI
From The Economist print edition

**The government wins a hard-fought victory over its cherished nuclear deal with America. Its image and credibility have paid a high price**

EPA

The victorious Mr Singh

AFTER a rancorous, sometimes riotous, two-day debate on its most contentious policy, a nuclear co-operation agreement with America, India's government on July 22nd won a parliamentary vote of confidence. This did not ensure the survival of the vexed agreement, on which George Bush and India's prime minister, Manmohan Singh, shook hands in July 2005. It still needs the approval of several bodies, including the UN's International Atomic Energy Agency (IAEA). But the government's victory, by 275 votes to 256, with ten abstentions, has probably saved it from strangulation by its Indian opponents.

It has also prolonged the government, at least for a bit. A governing coalition led by Mr Singh's Congress party was on July 9th deserted by its Communist allies, in response to its long-delayed decision to submit the nuclear deal to the IAEA. A tribute to nuclear-armed India's rising stature, the agreement in effect grants an amnesty on its refusal to sign the Nuclear Non-Proliferation Treaty (NPT), by allowing it to purchase nuclear fuel and technology regardless. But the Communists oppose the deal's subtext, closer ties with America, and therefore vowed to bring the government down. So the government called the confidence vote to thwart them.

The victory was especially glorious for Mr Singh, who has waged a quiet and lonely campaign for the nuclear agreement, in the teeth of the Communists' opposition and Congress's indifference. But the deal—or, more precisely, a safeguards agreement attached to it—is now to go before the IAEA's board of directors on August 1st. If it approves it, the 45-member Nuclear Suppliers Group will be asked to waive its rules on nuclear trading for India. America's Congress would then be asked to give a final blessing—though this may not be possible before Mr Bush's administration ends in January.

It is also uncertain how long Mr Singh's government will enjoy its reprieve. With inflation at a 13-year high, it is not inclined to face India's voters before its term ends in May 2009. It must therefore hope that its new-look parliamentary majority, which it won by recruiting a fresh ally, the Samajwadi Party (SP), will hold firm. In India's fractured polity, that is an ambitious hope.

The wild scenes in Parliament were an image of this. India's legislators have a habit of unruliness: unsurprisingly, perhaps, when many—including over 100 currently—face criminal charges. But a special chaos prevailed during this debate. There was almost constant barracking and chanting; stray backbenchers raged inaudibly amid the din, for the television cameras and unknown reasons. Partly they were playing to the media gallery: some consider their constituents to be more impressed by strong words than sense. But it also reflected an ill-tempered display of horse-trading, floor-crossing and, the opposition alleged, vote-buying by the government.

Prison cells were opened, to allow five pro-government parliamentarians out to vote. The government also renamed the main airport in the northern state of Uttar Pradesh (UP) after the father of an important fence-sitter: the leader of a small party, Ajit Singh (who, in the event, voted against the government). But ten opposition members, including four from the main opposition Bharatiya Janata Party (BJP), voted with it. Perhaps anticipating this, three BJP members staged an unprecedented protest in Parliament. Shortly before the vote, they interrupted an angry Communist in mid-flow, by displaying wads of rupees to the packed chamber. They said this was the first instalment of a 90m-rupee ($2.1m) bribe, given to them by the government's camp; and that they could prove it.

These scenes may be damaging for the government. The BJP has been reluctant to attack the prime minister personally, because of his unusual reputation for honesty in office; that may now change. And the government can expect no offsetting electoral joy from the nuclear deal. Indian voters, mostly poor and rural, are not fussed about foreign policy. Nor are many impressed by economic reforms, needed though they are. Mr Singh is a respected former finance minister. His government was expected to be much more reformist than its Communist comrades have in fact allowed it to be. Allied to the more flexible SP, it may now attempt a few modest measures: to allow more foreign direct investment in insurance, for example, and to try privatising a public company or two.

But as the election looms, the Congress party and its allies are likely to devote more thought to winning it. In fact, that partly explains the government's tie-up with the SP. Based in UP, and notorious for the corrupt governments it has led there, the SP is alleged to have demanded that the government pursue corruption allegations against its main rival, Mayawati, the state's chief minister. A champion of low-caste Hindus, her Bahujan Samaj Party trounced the SP in last year's state election in UP, and threatens to do so in the general election. The SP is also seeking a favourable electoral alliance with Congress in UP. Congress can probably live with both demands. Indeed, a lacklustre police investigation into the source of Mayawati's impressive wealth has already been revived. And an alliance with the SP in India's most populous state, UP, could improve Congress's own fortunes there.

Through such ad hoc alliances, in all 29 states of India, the BJP and Congress will build their campaigns. Indeed, their choice of allies, from among a growing multitude of regional and caste-based parties, is likely to have a bigger impact on their chances than any national issue. On recent form, both the main parties may emerge weaker from the election, and their allies stronger. Without surer leadership than either Congress or the BJP has recently displayed, their governments will become even weaker. This is a serious concern. But it is hardly surprising. All politics is local; and India has an awful lot of localities.

Economist.com WORLD ASIA

**The Beijing Olympics**

# Five-ring circus

Jul 24th 2008
From The Economist print edition

### News from the forbidden Citius, Altius, Fortius

FOREIGNERS deemed potential protesters are being kept out of China during the Olympic games (August 8th-24th). Beijing is ringed with police checkpoints to keep troublemakers at bay. But the authorities have named three city parks where **demonstrations**, in theory, will be allowed. They are well out of earshot of the main Olympic venues and police permits will be needed (five days' notice required). Chinese rules ban any protest that threatens public security or social stability. This is routinely used to block any demonstration that citizens have the temerity to propose.

Relations between China and Taiwan are much improved since Taiwan elected President Ma Ying-jeou in May. But hackles have been raised in Taiwan by a reference by China's state-run news agency to the "China, Taipei" Olympic team. Taiwan says the correct term should be **"Chinese, Taipei"**, supposedly suggesting a merely cultural link with China—not belonging to it. Taiwanese might have other bones to pick. An exhibition at the National Art Museum of China in Beijing labels Taiwan's entries with the flag of the People's Republic.

Many provinces are suffering **power shortages** because producers have little incentive to generate electricity given the high cost of coal and the low state-mandated electricity price. But the government is desperate to keep the lights burning and the air-conditioners humming in Beijing during the Olympics. It helps that polluting industries have been ordered to shut down or cut production until the games are over. But ensuring power-company employees stay focused on this "political task", as officials call it, is seen as crucial. A provincial power firm ordered to send workers to Beijing to help maintain uninterrupted supplies says those chosen must (rather like athletes) be "politically progressive, ideologically stable, physically healthy and capable of following orders". Technical competence is at the bottom of the list.

## The sporting spirit

"We must give full play to the superiority of the socialist system and organise and mobilise the masses to wage a people's war for the protection of Olympic games security." *Zhou Yongkang, the Communist Party's security chief, as he inspected Olympic security measures on July 22nd.*

## The Sino-Russian border

# The cockerel's cropped crest

Jul 24th 2008 | BEIJING
From The Economist print edition

**Nearly 40 years after fighting flared, a border deal is reached**

AFTER decades of dispute, China and Russia have at last reached agreement on where the entire length of their common border lies. On July 21st the two countries signed an accord on the last small stretch that had yet to be formally settled, putting an end to a quarrel that once came close to war. In both countries, a nationalist fringe will be nettled.

With their "strategic partnership", a shared resentment of Western dominance and friendly military ties, China and Russia have long put behind them the acrimony that erupted into cross-border skirmishes in 1969. In recent years they have been tidying up the remaining odds and ends along their 4,300km (2,670 mile) frontier. The latest agreement, signed in Beijing by the two countries' foreign ministers, resolves the niggling matter of a couple of islands at the confluence of the Amur and Ussuri rivers near the city of Khabarovsk in Russia's Far East.


The two countries reached an initial accord on this problem in 2004. The deal was that Russia would hand over one of the islands, Tarabarov (Yinlong, as China calls it), and half of Bolshoi Ussuriysky island (Heixiazi or Bear island). The Chinese and Russian parliaments endorsed the plan the following year and work got under way on staking out the new border. Now the Chinese can move in.

The outcome is a compromise. Since the 1960s China had been demanding the islands in their entirety. They had been illegally taken over, they insisted, by the then Soviet Union in 1929. The Russians, who had settled on Bolshoi Ussuriysky, did not want to abandon it. Now, the Chinese have got the all-but uninhabited parts, where, according to rumours in the Chinese media, officials are examining the potential for tourism.

Nationalists in both Russia and China have expressed unease about the arrangement. In Khabarovsk some have complained about giving up what they see as Russian territory. Their counterparts in China, who describe the islands as the missing detail on the crest of the cockerel that China's map vaguely resembles, naturally want more. But Chinese and Russian officials are delighted. A Chinese scholar quoted by a Beijing newspaper said the experience could be useful for solving some of the country's other border disputes. The Japanese, Vietnamese and Indians, among others, would concur that these still have a long way to run.

Pakistan

# Red mist

Jul 24th 2008 | DELHI
From The Economist print edition

**Frightening and senseless threats to our correspondent from angry jihadists**

BY SOME reckoning, the leaders of Islamabad's Lal Masjid, or Red Mosque, ought to be in prison. For six months last year, led by two clerical brothers, Abdul Aziz and Abdul Rashid Ghazi, the mosque was a jihadist citadel. In the heart of Pakistan's capital, the brothers sent forth Islamist vigilantes. They kidnapped six Chinese women whom they accused of selling sex. They threatened to break the heads of music-cassette vendors. When President Pervez Musharraf demurred, the Red Mosquers bunkered down.

A siege ensued. “We will defend ourselves even to death,” said Mr Ghazi, at a press conference inside the mosque's fortified walls. He spoke truth. A year ago this month, the then General Musharraf sent in the troops. In the ensuing gun-battle, Mr Ghazi and over 100 of his followers were killed. Mr Aziz escaped in a burqa; but was soon arrested. He has been charged with kidnapping and other crimes. But most of his accomplices are still at large. They include his wife, Umme Hassan, who ran a seminary for female jihadists. Indeed, she and her fellows have since set up shop in another seminary, outside Islamabad.

There, they like to rage against the government, the army, America—and, this month, our correspondent. An eminent Pakistani newspaper editor, and long-time contributor to *The Economist*, Najam Sethi has often aroused the wrath of his Islamist compatriots. But this latest incident, inspired by the liberal editorial line of *Aajkal*, an Urdu newspaper that he edits, is especially troubling. On July 11th—five days after a suicide-bomber killed 19 people, mostly policemen, near the Red Mosque— its clerics held a protest in Islamabad against Mr Sethi and his newspaper. They objected mostly to a cartoon it had printed, depicting Ms Hassan in the act of teaching burqa-clad students “how to kidnap Chinese masseuses”.

Mr Sethi and his supporters defended the paper's right to a little harmless satire. In response, the clerics have claimed that the cartoon was blasphemous—and even compared it to cartoons in Denmark that ridiculed the Prophet. This is nonsense. It is also a supremely reckless way to criticise Mr Sethi. As the government has thankfully realised; it has sent armed guards to his newspaper and his house.

Why are these hoodlums free to terrorise law-abiding Pakistanis? It may be that many Pakistanis sympathise with their cause. After all, it is widely believed that hundreds of good Muslims died at the Red Mosque. But that is no excuse for the government to refrain from using the law to restrain those who incite violence.

Kashmir

# Spoiled by war

Jul 24th 2008 | SRINAGAR
From The Economist print edition

**Nearly two decades of conflict have left Kashmir overloaded with orphans**

Mian Ridge

**They are entitled to ask for more**

“WHEN did you last see your father?” is not a question to ask many of the 350 children in Srinagar’s main orphanage. Over half are victims of Kashmir’s 19-year-old insurgency, having lost one or both parents to the war between Indian soldiers and separatists.

Wasim Ahmed Bhatt, 16, is more forthcoming than most. His father, a member of a local Islamist outfit, Hizbul Mujahideen, was shot dead 14 years ago while on an operation against the army. After a long struggle to feed their three children, the dead man’s widow deposited Wasim at the orphanage four years ago. There he has learnt English, which he wants to study at university. He says he has no interest in fighting for Kashmir’s freedom—though many, if not all, orphans seem to favour independence.

Rough estimates suggest there may be between 70,000 and 100,000 orphans in India’s only Muslim-majority state. Many are victims of a war that claimed a dozen lives a day in 2001, its bloodiest year on record. When the war began, there was just one small orphanage in Srinagar, Kashmir’s lake-rimmed capital. Now there are half a dozen much bigger establishments, including one run by the army for orphans of its dead retainers.

The orphanages mean wretched children, but also a depressing cultural change. “Before, people would never have taken their brother’s children to a strange place and left them there,” says the main orphanage’s director, Saifullah Khalid. But with the huge number of deaths, it became impossible not to.

The killing in Kashmir continues. On July 24th at least five people died in a bombing in Srinagar. But last year’s still horrific official death-count, 777, was the lowest since the war began. Improved relations between India and Pakistan have helped. And the army, which has 600,000 troops and a reputation for brutality in Kashmir, has been showing greater restraint.

That is good news for Kashmiris. But it may not end their struggle. Last month saw the biggest pro-independence protests in Kashmir since the early 1990s. They were prompted by a decision of the state government to donate land to Hindu pilgrims—and led to the state government’s collapse. Until a state election, due by November, Kashmir is being ruled from Delhi. In Srinagar’s main orphanage, some express strong views on these recent events. “They were trying to bring Hindus to Kashmir; this was unacceptable,” said Gazi Abdullah, 11, meaning India, whose army killed his father.

## Australia and climate change

# Greens and the black stuff

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From The Economist print edition

**The climate-change prime minister loses some green points**

COALMINERS in New South Wales (NSW), Australia's most populous state, boast that they export enough of the black stuff to supply New Zealand, Indonesia and Singapore with all their electricity. Along with Queensland and Victoria, the state also digs up enough to provide Australia as a whole with 83% of its power. This dirty energy has turned Australia into one of the world's highest per person emitters of greenhouse gases. With more than 200 years' supply of black coal left, Australians have never much questioned this. But that may be about to change.

The Labor government, under Kevin Rudd, outlined plans in a green paper on July 16th to cut carbon pollution with an emissions-trading scheme. Mr Rudd's promise to tackle climate change played a large part in Labor's election win last November. During its 11 years in power the former conservative coalition, under John Howard, largely ignored the issue.

Mr Rudd ratified the Kyoto protocol soon after his victory. After this symbolic gesture, the politics may now prove harder. Under Mr Rudd's cap-and-trade scheme, Australia's biggest polluters will have to start buying permits to emit carbon in a market auction each year from 2010. The government's aim is to cut emissions by 60% of 2000 levels by 2050.

It reckons the scheme is likely to affect only 1,000 companies, that emit more than 25,000 tonnes of carbon a year. Even here there will be sweeteners. Initially, businesses whose exports could suffer will receive free permits. Coal-fired power stations will get cash compensation. Revenue from permits will be used to help the poor cope with the higher carbon costs that companies pass on. And, if petrol prices rise from carbon costs, the government will for three years cut its excise tax by the same amount. Green groups accuse the government of diluting its plan to please business and avoid a political backlash.

In a report on July 4th that Mr Rudd commissioned, Ross Garnaut, an eminent economist, called for a tougher approach than the prime minister appears to be taking. Without a lower-carbon economy, Mr Garnaut said, the Great Barrier Reef and other Australian "heartlands" would change "beyond recognition".

Yet Australia's dependence on coal and other mineral exports makes the government wary. Thanks to demand from Asia, coal exports are expected to grow by one-third over the next five years. Critics accuse Australia of double standards: curbing emissions at home, yet exporting carbon fuel to less strict countries. Nikki Williams, head of the NSW Minerals Council, a lobby group, argues that the answer is to pour more money into "clean-coal" research: cutting emissions by capturing and storing carbon. Australia already has several such pilot schemes, but their commercial promise is still years away.

Despite their plan's gaps, Mr Rudd and Penny Wong, his climate-change minister, seem to have got the politics right, for now. An opinion poll on July 21st found more than two-thirds agreeing Australia should cut its emissions, even if other countries did not. Mr Rudd's real problems may start later this year, when a white paper will put figures on carbon caps up to 2050. Only then will business know the real costs.

Economist.com WORLD ASIA

**Nepal**

# Guerrilla politics

Jul 24th 2008 | KATHMANDU
From The Economist print edition

**The Maoists learn that not all power grows from the barrel of a gun**

AP


**Prachanda: still learning**

IT HELD elections in April. But Nepal is still without a government. On July 23rd, however, it did acquire a president, Ram Baran Yadav, a peasant's son from the southern Terai plains. This follows the abolition of the 239-year-old monarchy. The former king, Gyanendra, has been granted an official forest retreat to sulk in.

The election, for a Constituent Assembly, which, besides being responsible for drafting a new constitution, doubles as a parliament, was won by the Communist Party of Nepal (Maoist). For a decade from 1996, the Maoists waged a vicious insurgency against the government. Now, they took 220 of the assembly's 601 seats but were unable to form the government. As the other parties reeled from defeat at the polls, the Maoists seem to have overestimated their own strength. Rather than forge a government of national unity, they were arrogant, publicly deriding other party leaders as "losers".

An interim constitution calls for consensus. It was assumed that this would mean a Maoist-led coalition, with big jobs shared: the second-largest party, the Nepali Congress, would take the presidency (a largely ceremonial role); another big party, the United Marxist-Leninist, would chair the assembly; and a relative newcomer, from the Terai, the Madhesi Janadhikar Forum, would have the vice-presidency.

No one challenged the Maoists' right to lead the government. So foreign donors and diplomats ingratiated themselves with Pushpa Kamal Dahal, known as "Prachanda", the Maoists' supremo. The Maoists started announcing their policies—a "radical transformation", including land reform and a doubling of government expenditure (without explaining where the resources would come from). In a more abandoned moment, Prachanda even said that the current political exercise was just a way-station on the road to a "people's republic", to be achieved, if necessary, through an "October revolution".

A government could not be formed, however, without first electing a president, to whom the sitting caretaker prime minister, Girija Prasad Koirala, could hand in his resignation. The Maoists sought to foist their own presidential candidates on the other parties. One was a septuagenarian revolutionary, whose party had made an abysmal showing in the elections, and whose claim to fame was a series of deadly bombings in Kathmandu in 1985. This galvanised the other parties to co-operate in finding a non-Maoist candidate.

In the indirect presidential election, Mr Yadav, a long-time Congress leader from the Terai plains and a medical doctor by training, won the votes of almost all the other parties. He is seen as a capable man—so Nepal has been pulled back from the brink. Mr Koirala has been able to tender his resignation. And the long-delayed formation of a national-unity government seems possible. The Maoists, stung by this defeat, and with unreconciled radicals in their ranks, will shun the compromises needed to lead it. But the past three months have been a learning period—not just about the nitty-gritty of parliamentary haggling but, more fundamentally, about not overreaching themselves.

## Zimbabwe

# They agree to talk, but nobody knows where it will lead

Jul 24th 2008 | JOHANNESBURG

**Zimbabwe's ruling party and opposition are ready to negotiate. But does Robert Mugabe have any intention of losing power?**

AFP

FOUR months after the elections on March 29th, which were followed by a campaign of ferocious violence meted out by pro-government militias, President Robert Mugabe and the opposition leader, Morgan Tsvangirai, have agreed to start talking. That is a big breakthrough. For the past 11 years, Mr Mugabe has not deigned to meet Mr Tsvangirai, and has sworn never to let him take over. Little wonder that there are still serious doubts whether Mr Mugabe or the men around him have any intention of losing power.

On July 21st both sides, together with a small opposition splinter group led by Arthur Mutambara, signed an agreement paving the way for negotiations over the country's future. Messrs Mugabe and Tsvangirai, bitter rivals since the former trade unionist started challenging the veteran liberator's rule in the late 1990s, actually shook hands. Mr Tsvangirai pointed out that it was quite an occasion "for the leader of the ruling party and the leader of the winning party" to be sitting down together in an effort to end the impasse.

Mr Mugabe's ruling ZANU-PF lost its majority in the legislative assembly for the first time since he came to power in 1980, and it was officially acknowledged that Mr Tsvangirai, as the candidate of the Movement for Democratic Change (MDC), won the first round of the presidential poll. But, after thousands of his supporters had been beaten up and tortured during the second round of the presidential campaign, Mr Tsvangirai withdrew his candidacy a few days before the run-off, held on June 27th. So Mr Mugabe was re-elected in a one-man race which most African election observers were forced to admit was a sham.

One reason for the negotiations is that the UN, the African Union (AU) and the Southern African Development Community (SADC), a regional group of 14 countries, have become more involved—and seem less willing to give Mr Mugabe a free ride. South Africa's president, Thabo Mbeki, remains the chief mediator under a previous SADC mandate, but the appointment of a "reference group" of representatives from the three organisations is another breakthrough. It meets a pressing demand of the MDC, which has accused Mr Mbeki of bias in favour of Mr Mugabe and has called for broader mediation.

The MDC says that the talks will get nowhere unless a bunch of other conditions is met: political violence

must stop; detained MDC people must be freed; those displaced by the violence must be able to return home; and all humanitarian help must resume. During the run-off campaign, Mr Mugabe barred most foreign organisations from distributing aid.

The new agreement sets out a broad political and economic agenda, with a deadline for reaching agreement of two weeks. A comprehensive power-sharing agreement is most unlikely to be sealed in so short a time, but the talks may be extended if progress is made and both sides participate in good faith. Substantive negotiations, to be held in South Africa, were due to start on July 24th. Meanwhile, no new government is to be appointed and the parliament that was elected in March may not be convened.

Both sides will have to stomach unpalatable compromises if an agreement is to be reached. Mr Mugabe insists he has won the election and must be recognised as president. The security chiefs, who now run Zimbabwe but are not formally on the negotiating team, are unlikely to bow out unless they get a guarantee that they will not be prosecuted.

The MDC, for its part, says it does not want a government of national unity like the one in Kenya, where the president, Mwai Kibaki, who is widely thought to have lost an election last December until it was rigged back in his favour, kept his job and the aggrieved probable winner, Raila Odinga, became prime minister. Mr Tsvangirai has called for a transitional authority to be formed, based on the results of the March elections. This authority would then lead the country to a fresh vote.

“We sit here in order for us to chart a new way, a new way of political interaction,” said Mr Mugabe at the signing ceremony. But years of repression, culminating in the last few months’ atrocities, will not be easy to forget. According to the MDC, more than 120 of its people have been killed and thousands arrested since March and some 200,000 people have fled the violence. The lead negotiator for Mr Tsvangirai’s side, Tendai Biti, who is the MDC’s secretary-general, is on bail, still facing treason charges. Mr Tsvangirai himself was detained repeatedly during the campaign; the authorities have failed so far to replace his passport, which is full, so he cannot travel abroad. Mr Mutambara, leader of the small MDC splinter group, is also on bail. He is facing charges for writing “falsehoods” in a newspaper editorial criticising Mr Mugabe.

Building trust will be hard. Previous attempts at negotiations, including months of sessions that were meant to ensure a fair election, failed after the ruling ZANU-PF reneged on a slew of commitments. Those talks collapsed earlier this year when Mr Mugabe decided unilaterally to set a date for the poll before a new constitution was in place and before changes in repressive security and media laws were implemented. In the 1980s, a rival liberation movement, ZAPU, was lured into a unity government after a ruthless campaign of violence that left many thousands dead in Matabeleland; it was eventually neutered by absorption into ZANU-PF.

Is the ruling party now genuinely interested in sharing power and finding a lasting solution? Or is it buying time in a bid to outwit its rivals yet again? The circumstances have changed in Mr Mugabe’s disfavour. For the first time, several African leaders condemned the violence and rejected the results of the run-off. Regional observers said Mr Mugabe’s re-election was illegitimate. Kenya’s Mr Odinga this week said the talks should lead to Mr Mugabe’s “safe exit”. The European Union is to expand its targeted sanctions against Mr Mugabe and his ruling circle, where in-fighting is getting more bitter.

## Trick or treat?

Regional leaders sound keener to find a solution. The disruptive exodus of Zimbabweans, mainly to South Africa but also to other neighbouring countries, is unabated. Indeed, Zimbabwe’s economy is now reaching a new stage in its meltdown, with inflation officially running at 2.2m% a year but in reality at least four times higher. The harvest has been bad; even bread may start to run out.

Still, it is South Africa’s government that has the most influence from outside, and for reasons of his own Mr Mbeki continues to appear reluctant to pull the plug on Mr Mugabe. The pressure is undoubtedly beginning to hurt. But it is unlikely that the Zimbabwean leader intends to bow out soon, or that his neighbours are determined enough yet to force him out.

**Africa and the Anglicans**

# Going their own way, by God

Jul 24th 2008 | NAIROBI
From The Economist print edition

**Why African prelates threaten to break up the worldwide Anglican church**

AS ANYONE who has ever sampled it can confirm, Christianity in Africa is not easy to describe. In the course of a Sunday morning, as one service succeeds another, the style of worship can fluctuate from sober hymns to joyful ululation and dancing in the aisles.

But the generalisations—most of them half-true at best—are coming thick and fast as bishops of the Anglican Communion hold their once-in-a-decade meeting in England, hoping against hope that an open rift between liberals and the African-dominated traditionalists can be avoided.

The simplest way of describing the cracks running down the middle of the 80m-strong Anglican family is to say that the traditionalists, reflecting the conservative social mores of Africa, are at odds with liberals from the rich world, especially over the issue of homosexuality. To explain the Africans' conservatism, many point out that they are on the front line of a contest with Islam; and that missionary work in Africa was carried out by evangelicals who reflect a rather fundamentalist strain of British Christianity.

All that is correct up to a point, and it explains why bishops from Kenya, Nigeria, Rwanda and Uganda are among the 230 or so prelates who are staying away from the Lambeth conference, leaving the meeting with a somewhat depleted total of 650 purple-robed figures. At a gathering in Jerusalem last month, the traditionalists, led by the fiery Archbishop Peter Akinola of Nigeria, took the first steps towards forming an alternative pan-Anglican forum.

But not all Africa's Anglican bishops are conservatives. Ever since the era of apartheid, the Anglican Church in southern Africa has had more pressing concerns than curbing homosexuality, and its own ethos is emollient. When Archbishop Desmond Tutu, the former South African primate, was campaigning for sanctions against South Africa under apartheid, he dealt gently with bishops who disagreed; a culture of "live and let live" endures, says Mr Tutu's biographer, John Allen.

It is true that Africa's Christianity, even among august denominations like the Anglicans, is more passionate than it is farther north. Apart from the contest with Islam, this also reflects the need to offer as intense an experience as do the Pentecostalists. On the other hand, many African Anglicans love the idea of an episcopate that goes back to the dawn of the Christian era, something the Pentecostalists can't provide. In Kenya, Anglicanism offers social cachet; and in Rwanda, Anglicanism attracts those who prefer the Anglophone Commonwealth to the Francophone past.

Some African Anglicans, such as Archbishop Henry Orombi of Uganda, reject the idea that they are clones of the Victorian missionaries, or of any other European model. Today's Ugandan church, he says, bears the stamp of the "East African revival", a movement that swept the region in the 1930s, with emphasis on the need for reconciliation and repentance. The Anglican Communion needs plenty of both.

## Uganda

# A grumpy kingdom

Jul 24th 2008 | KAMPALA
From The Economist print edition

**Ancient animosities threaten an east African country yearning to be modern**


ONE feature of Uganda is the persistence of its five Bantu kingships. They have no formal political power but centuries of powerful tradition behind them. Foremost among them, or so its subjects crow, is the kingdom of Buganda, from which the modern state of Uganda takes its name and whose people, the Baganda, were once the most numerous and powerful. For many years, however, they have felt unfairly treated—and are becoming ever-more-hostile to the 22-year-old regime of President Yoweri Museveni.

Once again, land is a burning issue. The now ghostly realm of the Baganda takes in the fertile lands in and around the capital, Kampala (see map). The Baganda number only 5m of Uganda's 31m people, but are proud and prickly about their past. They say they were never conquered by the British, but entered voluntarily into a protectorate. Certainly they were favoured with a measure of autonomy. The tensions between their kingdom and the Ugandan state have never disappeared and are now as high as they have ever been since independence.

The Baganda have long nurtured a catalogue of grievances. They cannot forget how their king, the *kabak*a, was burned out of his palace in 1966 and exiled. King Edward Mutesa, known abroad as "King Freddie", a former officer in Britain's Grenadier Guards who was then serving as Uganda's non-executive president, later died of alcoholic poisoning in London in 1969; some Baganda think he was murdered. After a bloody interregnum during the years of Idi Amin (1971-1979) and the ensuing civil wars, the king's son, Ronald Mutebi, was allowed to return by Mr Museveni. The idea was to use the kingships (the others being Ankole, from which Mr Museveni hails, Bunyoro, Busoga and Toro) to build national reconciliation and attract educated and prosperous Ugandans back to a ravaged country.

But the Baganda say that Mr Museveni is breaking a promise to give back their communal lands. They claim 9,000 square miles (23,310 sq km) of central Uganda. Mr Museveni dismisses this claim out of hand. He says that the calculations are erroneous, that the claims to title are shaky, and that those who occupied the land for the past few decades should have rights to it. His government says that 420,000 Ugandans with land in the best parts of the country should not have priority over 30m Ugandans who have little or none.

The minister of lands, Daniel Atubo, argues that the Baganda cannot reasonably lay claim to more than 700 square miles. This assertion was applauded by many non-Baganda, particularly the rival Bunyoro, to

the north-west. The government is resolved to push through a new land law that would strip Buganda of its communal lands and weaken the hold of all landlords over the land they still control. The Baganda are also furious at a government policy of settling pastoralists from other parts of the country, along with their cattle, in Baganda villages.

Some fear that this could lead to war. Several young men filing out of Buganda's Parliament building in Kampala on a sunny Saturday afternoon say so. "The government has squeezed the kingdom too far," says one, waving a tract on Baganda land rights. "It's time to fight," says another. The potential for outbreaks of ethnic violence of the kind seen in Kenya after last year's disputed general election is high; in some districts, fighting has already been reported. Aggrieved Baganda may target pastoralists and other poor non-Baganda with nowhere else to go.

Even if violence is prevented, the problem of how to settle and protect the displaced poor while not angering the landed would be hard enough. Moreover, Uganda has other big worries. Its population is exploding; in the past half century it has leapt from 6m to its present 31m. Grazing land for cattle is fast running out. In the north, some 1.7m people, mostly of the Acholi tribe, are still displaced as a result of the brutal decades-long rebellion of the Lord's Resistance Army. Mr Museveni is far from achieving his ambition of turning Uganda into a regional industrial power.

Educated Baganda, especially those in the government, accept that a compromise is necessary if Uganda is to move forward but say land reform must be fair. They complain that some of the disputed land has been dished out to army officers friendly to Mr Museveni. Independent land experts and bankers agree with the government that some of Buganda's land claims are hard to prove but add that the land law is full of inconsistencies.

## By hook or by crook

Mr Museveni may be trying to split the Baganda's vote before the next elections, due in 2011. Though he strong-armed Parliament three years ago into changing the constitution to let him serve his current third term as president, the latest whisper is that he is bent on having a fourth. Hence the latest grumbling among Ugandans of all tribes (except his own), but especially among the once-dominant Baganda.

Creating a clearer federal structure for Uganda could help, but Mr Museveni is against the idea. Though he has warm relations with the government of Ethiopia, which has championed ethnic federalism, he says Uganda is too complex, with many ethnic groups living together in mixed areas, for such a system to be anything but divisive. Besides, it would mean loosening his grip on power at the centre. The Baganda seem loth to rebel in the near future. But if the 2011 elections are badly handled, Uganda could slide into violence again. And the land issue could all too easily be the catalyst.

Iran

# Who runs it?

Jul 24th 2008
From The Economist print edition

**The puzzling relationship between supreme leader and president**

WHAT does Ayatollah Ali Khamenei, Iran's supreme leader, really think of Mahmoud Ahmadinejad, his bellicose, populist president? After Mr Ahmadinejad was elected in 2005, to the surprise of almost all the pundits, it was widely assumed he would be a meek figurehead. Yet he has been given much leeway, and his reckless economic and risky foreign policies have dragged Iran into a state of near-constant crisis. But even Iranians close to the government find it hard to tell whether the president is the supreme leader's trusted lieutenant or whether he is an out-of-control maverick with grander ambitions that may be giving Mr Khamenei sleepless nights.

In terms of constitutional authority, the ascetic Mr Khamenei is plainly the most powerful man in the Islamic Republic; no big decision can be taken without his consent. Some Western experts think he is more powerful now than at any time in his 19 years as leader. The most influential institutions in Iran's elaborate power-structure, including the Revolutionary Guards, the Guardian Council, the presidency and parliament, are all still run by direct appointees of the supreme leader or by people unfailingly obsequious to him.

Yet Mr Khamenei wields his power lightly, to the extent that he often seems aloof. He is thought not to have left Iran since 1989. He rarely meets journalists or visiting Western officials. Whether intentionally or not, he has been overshadowed by Iran's presidents, even before Mr Ahmadinejad. The reform-minded Muhammad Khatami, who presided from 1997-2005, upstaged him from the left with hopeful calls for a "dialogue of civilisations", while Mr Ahmadinejad seems to outflank him from the right with diatribes against Israel and denials of the Holocaust. Moreover, Mr Ahmadinejad gives the impression across the world that he is Iran's main man. For instance, the Republican presidential candidate, John McCain, has argued that Mr Ahmadinejad, not Mr Khamenei, has ultimate authority in Iran.

But Mr Ahmadinejad may have overreached himself. Last month, weeks after he publicly threatened to expose officials involved in corruption, one of his ideological allies, a former staff member of Iran's parliament called Abbas Palizdar, said that dozens of top clerical leaders, including several close to Mr Khamenei, had used their connections to swindle hundreds of millions of dollars from the state and even to kill their opponents.

Iranians have long accepted that the leading clergy have deep pockets, but it is rare for insiders such as Mr Palizdar to name names. Some Western experts on Iran, such as Gary Sick, of Columbia University in New York, who served in the National Security Council under Presidents Ford, Carter and Reagan, interpreted it as an extraordinary display of ambition by Mr Ahmadinejad. "At a minimum, [he] is carrying out a direct challenge to Khamenei and the old-guard leadership," he wrote. "At a maximum, [it is] a slow-motion coup in which he gradually accumulates more and more power to himself and to the presidency."

## Accuser accused

But before Mr Palizdar's allegations could gather momentum, he and several of his friends were arrested on charges of "propagating lies" and "confusing public opinion". When it became clear that Mr Khamenei was incensed by this public display of alleged dirty laundry, Mr Ahmadinejad and his allies quickly dumped Mr Palizdar, calling him a "corrupt impostor".

A counter-attack against Mr Ahmadinejad then continued. An influential former foreign minister and confidant of Mr Khamenei, Ali Akbar Velayati, called the president's policies "illogical" and took the unusual step of writing an editorial in a French newspaper, *Libération*, reportedly with Mr Khamenei's blessing, to state explicitly that the supreme leader was Iran's ultimate decision-maker. The usually

combative Mr Ahmadinejad stayed silent. According to a former senior Iranian official who is related to Mr Khamenei and occasionally meets him: "If the leader were to withdraw his support, Ahmadinejad's political future would be finished…He is scared of [Khamenei], like a dog".

But just as Mr Ahmadinejad seemed to have fallen out of favour with the leader, Mr Khamenei came to his defence. "The responsible party for advancing the nuclear issue is the Supreme National Security Council headed by the honourable president," he declared. "What is said by the president and authorities is shared by all authorities of the country…" Mr Khamenei may feel obliged to display national unity, especially on nuclear issues. He may also like to let the occasional hostile feelings of ordinary Iranians for the government be deflected towards the president.

So it is unclear how the two top men really feel about each other—or whether, for instance, Mr Khamenei will back Mr Ahmadinejad next summer if he seeks re-election as president. No matter who wins the presidency, a big shift in Iran's domestic and foreign policy seems unlikely while the 69-year-old Mr Khamenei remains the supreme leader.

**Syria**

# Red lines that cannot be crossed

Jul 24th 2008 | DAMASCUS
From The Economist print edition

AFP


**All that's fit to print**

**The authorities don't want you to read or see too much**

FOR "defaming and insulting the administrative bodies of the state", the president of the Syrian Centre for Media and Freedom of Expression, Mazen Darwish, was recently sentenced to a salutary ten days in jail. His real crime was to report on riots in an industrial town near Damascus, Syria's capital. Reporters Without Borders, a Paris-based lobby, said his case brought the number of journalists and "cyber dissidents" imprisoned in Syria to seven.

Mr Darwish may have got off lightly. In May Tareq Bayassi, aged 24, was jailed for three years for publishing "false news" on the internet after being detained without trial for almost a year. "The real reason for the sentence," says another lobby, the online Committee to Protect Bloggers, "was his having posted an article on the shortcomings of the Syrian secret service."

For several years Syria has been an enemy of the internet. The security services keep opposition figures and even ordinary bloggers under surveillance. The main internet service-provider bans 100-plus websites. Most sites carping at President Bashar Assad's government are silenced, as are many Kurdish and Islamist sites. A yellow screen flashes up with the words "Access Denied".

Even popular social networking sites such as Facebook and YouTube were banned last year without explanation. They may be available at some of Syria's many internet cafés, but the secret services are scrutinising them ever more closely. Surfing aficionados still manage to get access to the sites by using proxy addresses, but this can be tediously slow.

The latest casualties include the Arabic version of the reference site Wikipedia and Israel's most liberal newspaper, Haaretz. "There's not much logic about it," said a Western telecoms engineer working in Syria, who had tried to reach the Logitech computer-hardware site without success. Hotmail has at times also been banned, though Yahoo! Mail has been untouched. The worldwide bookseller Amazon.com is blocked, yet—bizarrely—the company's British website is open. Meanwhile, Syria's government has signed a contract with a Chinese company to provide another 33,000 sought-after broadband lines.

Amid the confusion of what is banned or what is not, the cyber-sands often shift. A magazine in Damascus recently withdrew a story about the opposition and reprinted an altered issue after officials objected. "We thought it was quite favourable to the government as it was saying how weak and fragmented the opposition is," says the editor. "It just shows how the red lines move."

But in some areas there are signs of a tentative relaxation. The government has licensed several private

radio stations, such as Mix FM, with its “Proud 2B Syrian” slogan. Amid an eclectic mix of Western rock, hip-hop and dance music, young, English-speaking presenters host live phone-ins of mostly idle chit-chat. Other talk shows have begun to tackle more delicate topics, such as the unpopular relocation of Damascus’s main bus station. That, so far, is about as daring as you can get.

**France**

# The reformist president

Jul 24th 2008 | PARIS
From The Economist print edition

**Quietly but determinedly, Nicolas Sarkozy is pressing ahead with reforms in France-all without provoking huge strikes and street protests**

AFP

SUMMER in France is usually just a lull between the strikes of spring and those of the autumn rentrée. But this year ministers are heading off on their holidays amid an unsettling calm. It is not just that the government won a perilous vote on constitutional reform by a margin of one this week. It is also that the union-led protest movement against President Nicolas Sarkozy's reforms has lost its edge.

On the face of it, the unions have plenty to grumble about. After a slow start to the year, Mr Sarkozy has since April found a second wind. Christine Lagarde, his finance minister, has pushed through a “modernisation of the economy” law, which cuts red tape for entrepreneurs and injects a blast of competition into the retail sector. The retirement age is being raised by a year. Companies are to be allowed to negotiate working time directly with employee representatives, to get round the 35-hour week. Benefit rules are being changed to penalise unemployed people who refuse more than two job offers. Cargo-handling is being transferred to the private sector in a sweeping reform of ports, a union stronghold. The list goes on.

Yet opposition to these measures has often been half-hearted. The Socialist Party has been inaudible, thanks to internal bickering. The unions have done little better. When the communist-backed Confédération Générale du Travail (CGT), the most powerful union, organised a day of action in June against the dilution of the 35-hour week, it called 1m people into the streets; but by its own estimate only half that number turned out. In the public sector, a mere 4% went on strike—down from almost 8% on a day of action in May.

It would be premature to conclude that Mr Sarkozy has broken the back of the unions. Yet something has changed. “It is definitely a turning-point,” says Eric Chaney, chief economist for Europe at Morgan Stanley. “The unions have been shown to be not as strong as people think they are.” French union power does not derive from numerical strength: union penetration is even lower than in America (see chart). Rather, it is an entrenched official role on company works councils and in industry-wide collective bargaining, combined with a tradition of street protest, that gives the unions clout. In 1995, when President Jacques Chirac's government tried

to end the special pension regimes for rail workers and others, weeks of strikes and protests forced it to back down.


Elected on a promise to break with such habits, Mr Sarkozy started with both a strong mandate and high popularity. When his mettle was tested during a gruelling nine-day strike last autumn, protesting against his plan to curb the special regimes, he sat it out and got the reform through. But the collapse of Mr Sarkozy's popularity, mixed with a souring world economy and soaring fuel and food prices, looked like a recipe for subsequent timidity. He has often seemed much keener on populist gestures—promising aid for fishermen or steelworkers, or railing against “monetary dumping” in the euro area—than on long-lasting change.

Yet Mr Sarkozy has slowly been notching up domestic successes. Although it will require an end to the economic downturn, which may not come before 2010, to see the full returns in terms of growth and jobs, some micro results are already showing. Take time worked over 35 hours, which he made free of tax and social charges. In the first quarter of 2008, the average number of hours of overtime per worker jumped by 40% over a year earlier, most notably in retailing and construction.

How has the unpopular Mr Sarkozy managed to get unwelcome reforms to the working week and benefit rules past France’s notoriously hostile unions? One critical weapon has been a new law that guarantees minimum service on public transport during strikes, thereby weakening their disruptive power. But three other tactical explanations also stand out.

First, by firing off in so many directions at once, Mr Sarkozy has made it difficult for the unions to focus. During the June strikes, for instance, it was unclear what the protests were supposed to be against. Pension reform? Working-time rules? Public-sector job cuts? “His method is to make everyone giddy,” comments one aide. At times, the president has played this game masterfully. When teachers went on strike in May against (modest) job cuts, Mr Sarkozy appeared on television not to calm but to wrong-foot them: he announced a new plan, popular with parents, to guarantee “minimum service” at schools during strikes.

Second, Mr Sarkozy has treated a select number of union leaders as grown-ups, taking them to fine restaurants in Paris and inviting them for talks at the Elysée. As Xavier Bertrand, the labour minister, puts it, “in the past, the government waited for a conflict and then negotiated; today, we talk first.” Mr Sarkozy's direct, inclusive approach goes down well with a group that is more used to disdain from French leaders. When Dominique de Villepin, a former prime minister, tried to introduce a flexible work contract for the young, he failed even to tell the unions about it first.

Third, if talks lead only to timid results, Mr Sarkozy seems willing to press ahead regardless, relying on public opinion for support. One example concerns working time. After months of talks on labour reform, unions and employers agreed in April to make elections to works councils more open and democratic, but did little to loosen the 35-hour week. So Mr Bertrand announced a new law, passed on July 23rd, to let companies negotiate longer working weeks with union representatives—all but squelching the 35-hour week.

Such tactics may have only a short shelf-life, since they undermine union trust in the government's good faith. Bernard Thibault, the CGT leader, denounced the manoeuvring over working time as “dishonest”. It did not help when Mr Sarkozy boasted publicly and clumsily that “now, when there is a strike in France, nobody notices.” Protests could easily resume. After a disruptive series of 24-hour strikes—fully 16 in Marseille alone—the dockers have suspended their action, but they could start again in September.

In Mr Sarkozy's favour, however, is public opinion. The French may no longer like him much, but they approve of his reforms: 52% told a recent Opinion Way poll that they wanted him to go further on the working week. With his popularity already so low, he has little to lose by being bold. Pulling off reforms that his predecessors failed to manage could be his best chance of regaining the voters' trust that he squandered so blithely earlier this year.

**Ireland and the Lisbon treaty**

# Vote early, vote often

Jul 24th 2008 | DUBLIN
From The Economist print edition

### The French president mollifies his tone towards Ireland

DAYS before his visit to Dublin on July 21st, Nicolas Sarkozy had alienated those he hoped to conciliate in his efforts to salvage the European Union's Lisbon treaty. The Irish government was dismayed when the French president privately told party members, only four weeks after Ireland's voters had decisively rejected Lisbon, that they would have to vote again. His leaked comments suggested that he would press his hosts into taking an early decision to hold a second referendum. It was the latest in a series of gaffes that have strained relations between the two governments, starting when the French foreign minister, Bernard Kouchner, warned the Irish that they would be the first victims if they said no to Lisbon.

But when Mr Sarkozy, whose country currently holds the EU presidency, arrived in Dublin, he was carrying neither a big stick nor a magic wand. He spoke softly, and for five hours proved an attentive listener to representatives of both pro- and anti-Lisbon arguments. Much to the relief of the Irish government, he offered no miracle solution to the Lisbon impasse. He even accepted that a second Irish vote was unlikely before 2009. Any sooner would risk a second rejection that would probably finish off Brian Cowen, the newish prime minister.

Mr Cowen is playing for time. But a deteriorating economy is making cuts in public spending unavoidable, so he seems sure to become more unpopular. As finance minister for almost four years until May, he enjoyed the best of economic times. As prime minister, he is presiding over an economy teetering near recession. This reflects a sharp drop in house prices and sales, cutting tax revenues and pushing the budget deficit close to the stability-pact ceiling this year, and probably over it in 2009.

If the economic outlook is grim, the political outlook is equally problematic. A second referendum early next year would give anti-Lisbon parties, such as Sinn Fein, a high public profile just ahead of local and European elections in June, something that Mr Cowen is keen to avoid. His apparent plan is to allow Irish voters ample time to debate and reflect on the consequences of their no to Lisbon, while he presses for clarifications and concessions to meet Irish concerns (the most obvious being to revert to one commissioner per EU member country). But would a second referendum held by the autumn of next year be any more winnable? So far Mr Cowen looks less of a political visionary who sees a way out of the Lisbon impasse, and more like Mr Micawber, desperately hoping for something to turn up.

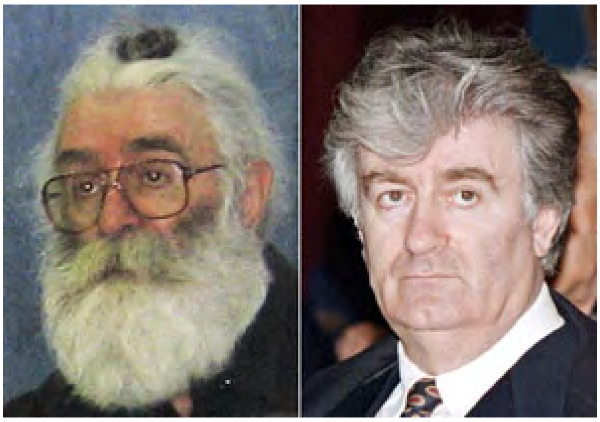
Serbia and Radovan Karadzic

# Arrest of a bearded man

Jul 24th 2008
From The Economist print edition

**How one arrest is transforming Serbia's relations with the European Union**

Reuters



**Karadzic: bushy in peace, bouffant in war**

THE story of Radovan Karadzic's past few years is so bizarre you could not have made it up. A man wanted for 13 years on charges of genocide, war crimes and crimes against humanity, he had been living under an assumed name in Belgrade, giving lectures on alternative medicine, Christian Orthodox spirituality and meditation, and offering treatments for depression and impotence. There was nothing strange, however, about the timing of his arrest—and its consequences will be far-reaching, for Serbia and the rest of the western Balkans.

In the next few days Mr Karadzic, who had been calling himself Dragan Dabic and sporting an extravagantly flowing white beard, must expect to be extradited to the UN war-crimes tribunal in The Hague. There he will answer charges dating from his time as the Bosnian Serbs' political leader during the Bosnian war between 1992 and 1995. Among them are charges arising from the siege of Sarajevo, in which thousands of civilians died, from the ethnic cleansing of hundreds of thousands of Bosniaks (Bosnian Muslims) and Croats, and about his role in the massacre of as many as 8,000 Bosniak men and boys after Bosnian Serb forces overran Srebrenica in July 1995.

Born in Montenegro, Mr Karadzic moved to Sarajevo as a teenager. Curiously, given his most recent incarnation, in an earlier one he flirted with Bosnia's Green Party. He once declared trenchantly that "Bolshevism is bad, but nationalism is even worse." Yet later he became a founder of the Bosnian Serb nationalist party and was instrumental in starting the Bosnian war, which ended with 100,000 dead and half the population displaced. Since the war ended in the Dayton agreement of 1995 (from which Mr Karadzic was excluded), the country has made great strides. But his legacy lives on in Republika Srpska, one of Bosnia's two "entities", whose leaders still talk of the secession that he once fought for.

According to Serbian officials Mr Karadzic was arrested after an operation in which they were following leads not for him but for Ratko Mladic, who led the Bosnian Serb army during the war and is blamed for carrying out the Srebrenica massacre. He and Goran Hadzic, who led the Serbs in Croatia during the war there, are the only men still on The Hague's wanted list now left on the run.

The arrest of Mr Karadzic came as a surprise, but perhaps it ought not to have done. This story really begins on April 29th. The Democrats, the party of Serbia's pro-European president, Boris Tadic, looked set for defeat in the general election on May 11th. Then the EU decided to give Serbia a stabilisation and association agreement (SAA), seen as a first step on the path to membership. This was controversial because some countries argued that Serbia should not get a SAA until it co-operated fully with the war-crimes tribunal.

The bribe worked: Mr Tadic's party won. But the small print of the deal was that the SAA would be frozen until Serbia was deemed to be co-operating with the tribunal. On July 7th a new pro-European government was formed in Belgrade. A week later Mr Tadic's men took over the intelligence services, which had been under the control of the outgoing prime minister, Vojislav Kostunica. "You can't build an intelligence network in a few days," says Daniel Sunter, a Serbian security analyst. "All they needed was the green light." The arrest of Mr Karadzic was, in effect, Mr Tadic's repayment of a debt to Brussels.

On July 22nd Vuk Jeremic, Serbia's foreign minister, was in Brussels asking for the SAA to be unfrozen. The news about Mr Karadzic had only just broken, however, so despite positive noises no decision was taken. Yet Serbia is likely to have its reward in the next few weeks. To maintain leverage until Mr Mladic and Mr Hadzic are nabbed, the EU may go only half way, not giving Serbia its full SAA quite yet.

Besides the war-crimes tribunal, the EU still has the little matter of Kosovo to deal with. The leaders of this mainly Albanian-populated region declared independence from Serbia in February, but the Serbs still see it as their southern province. Serbia is now circulating a draft resolution to the UN General Assembly asking the International Court of Justice to rule on the legality of Kosovo's secession. This, says a diplomat from a country that considers Kosovo's declaration of independence illegal, has meant that colleagues from countries which have recognised Kosovo "are beginning to sweat."

But another diplomat suggests that, if Serbia insists on taking Kosovo to the international court, it could "come back to haunt them." In any event, Serbia's new authorities are sending out some conciliatory signals over Kosovo. Ambassadors withdrawn from EU countries that recognised Kosovo are now returning. Some of the people the government is appointing to run its Kosovo ministry are known doves. Nothing will change in Kosovo overnight: the real power among Kosovo's Serbs resides with officials linked to nationalist parties. But they may find themselves starved of cash from Belgrade if they do not co-operate with Mr Tadic.

Serbia's government has said that its main priority is to accelerate the country on the path towards European integration. "We said we were serious," says Mr Jeremic, commenting on Mr Karadzic's arrest, and adds that it would be "hugely disappointing" if the EU does not soon unfreeze the SAA. But Brussels will in turn expect Serbia to unblock its opposition to the deployment of the EU police and justice mission in Kosovo, which should have been up and running by now.

Sooner rather than later a deal needs to be struck over Kosovo. Otherwise, says one diplomat, it will once more destabilise the region. The arrest of Mr Karadzic is a giant leap forward for Serbia, especially if Mr Mladic is taken next. But one leap is not enough to carry the country into the EU.

Bulgaria, Romania and the EU

# Balkan blushes

Jul 24th 2008 | SOFIA
From The Economist print edition

**The European Union softens its criticisms of Bulgaria and Romania**

BY THE polite standards of Brussels, it was quite tough. On July 23rd the European Commission issued critical reports on Bulgaria's and Romania's progress (or lack of it) in fighting corruption and spending European Union money. Yet after intense lobbying, the language was weaker than in the scalding drafts leaked earlier. And the commission dropped an explicit warning that Bulgaria was endangering its chances of joining the euro and the Schengen passport-free travel area.

Even so, the reports hit home, complaining of a "striking" absence of convincing results in Bulgaria's anti-corruption fight, and of a "grave problem" over the "lack of accountability and transparency in public procurement" when spending EU funds. The commission announced severe sanctions, suspending aid worth as much as €486m ($770m). Without reform, the suspended sum will rise sharply by November.

Bulgaria's prime minister, Sergei Stanishev, welcomed the softened language of his country's report and promised an "action plan". Outsiders treat all promises of improvement, along with such flourishes as the appointment of a well-regarded ex-ambassador, Meglena Plugchieva, to oversee the use of EU funds, with justified scepticism. Despite much shuffling of departments and expensively publicised initiatives, and what on paper look like the right laws and procedures, the glaring fact remains that Bulgaria's efforts have shown almost no results in terms of convicting fraudsters or corrupt officials.

Indeed, public figures sometimes seem not just weak but malevolent. For example, the EU's anti-fraud agency, OLAF, has accused high-ranking officials of being a "political umbrella" for gangs who have stolen millions of euros meant for Bulgaria's backward and dirt-poor countryside. "Influential forces" in politics and the bureaucracy, suggested OLAF's leaked letter, are "not interested" in punishing those linked to two notorious crime bosses.

Worries about Bulgaria and Romania, especially over their ability to administer nearly €38 billion promised by the EU up to 2013, are hardly new. In January it emerged that the man in charge of Bulgaria's roads, Veselin Georgiev, had granted contracts worth hundreds of millions of euros to a company owned by his brother. The commission froze €144m for farming and road improvements, and Mr Georgiev resigned. So did the interior minister, Rumen Petkov, after reports that a drug gang had obtained secret internal documents from his ministry, and that illegal booze producers had traded money for favours from a senior crime-fighter. Mr Petkov is in charge of fund-raising for the Socialist (ex-communist) party, which heads the governing coalition and also won the presidential election in 2006.

Crime, corruption and a weak judicial system are overlapping problems. Not one of dozens of gangland killings since 2001 has been solved. The kidnapping of the president of a leading football club and, later, his wife within the past two months has highlighted the authorities' seeming helplessness over organised crime.

What scandalises ordinary Bulgarians is that their country, the poorest in the EU, is missing a vital chance to modernise. Public services are dire—shown by a crisis this month in Sofia's rubbish collection, which has left the streets piled with rotting piles of garbage. So foreign criticism, which in some countries might arouse defensiveness, is in fact welcomed. The EU's popularity has rocketed, whereas the government's negative rating is now as high as 73%. The country has lost, by some estimates, a quarter of its population since the early 1990s, shrinking from 10.5m then to as low as 7.5m now. That is a huge vote of no confidence by the public.

Parliament is another story. The government looks set to survive a no-confidence vote next week. A general election is due next summer, when a new centre-right party, headed by the mayor of Sofia, Boyko Borisov, is expected to do well. He attracts praise for his dynamism, though fastidious Bulgarians flinch at his background as an ex-wrestler, bodyguard and police chief: emblematic in their eyes of the political milieu that the country needs to dump.

In Romania, by contrast, politicians are relieved after escaping sanctions in a softly worded commission report on their anti-corruption and legal reform efforts. This too was watered down from the draft, itself weaker than some seasoned Romania-watchers had hoped. The commission bemoaned the lack of practical results but welcomed a “move in the right direction”. In Bulgaria, sadly, outsiders find it hard to see any movement at all.

If you wanted to discredit the EU, squandering taxpayers’ money in its most corrupt new members, Romania and Bulgaria, would be one way to go about it. Yet though Brussels is disappointed and even angry about the two countries’ performance since joining the club in January 2007, Eurocrats are not sure what to do. Sharp criticism and tough sanctions might merely demoralise those who are trying to make things better, as well as undermining the membership hopes of other Balkan countries. Despite everything, few believe that any of the new members would be better off out than in.

Smoking in Germany

# Bans up

Jul 24th 2008 | BERLIN
From The Economist print edition

**The constitutional court is to rule on the legality of German smoking bans**

Illustration by Claudio Munoz

“DON’T WALK” signals hypnotise German pedestrians even when no car is in sight. No smoking laws are another matter. By July 1st all of Germany’s 16 states had banned smoking in bars, restaurants and discos (though most allow it in separate rooms). But plenty of smokers still light up. “Beer goes with cigarettes and cigarettes with beer,” says a bartender at Köpi bei Reiner, in the Charlottenburg district of Berlin, where ashtrays fill up despite a smoking ban. Innkeepers think the bans themselves are illegal, and have fired a fusillade of legal challenges. On July 30th they expect a verdict from the most senior tribunal: the constitutional court.

The constitutional rights to property and to exercise one’s profession are at stake, claim the plaintiffs, who want smoking bans eased for some 60,000 one-room establishments. The German Hotel and Restaurant Association says smoking bans have cost small bars and restaurants 30% of their revenues. That shakes a pillar of social life: the *Stammtisch*, a regulars’ table at the corner bar where fellowship is forged. If people cannot smoke at Köpi, says its bartender, “we would lose our regulars”.

Anti-smoking campaigners have long found Germany a hard case. Last year the Swiss Cancer League ranked the tobacco-fighting zeal of 30 European countries, and placed Germany 27th. The new smoking bans might improve its ranking, but they are riddled with 130 exemptions, complains Martina Pötschke-Langer, of the German Cancer Research Centre. Bavaria enacted Germany’s toughest ban, banishing cigarettes even from separate rooms, but it lets bars become private “clubs” and their patrons turn into “members”. After voters gave the ruling Christian Social Union a drubbing in a local election in March, the state government said this year’s Oktoberfest could be as smoky as ever.

Smoking foes detect the hand of the tobacco lobby. That is hard to prove, although cigarette ladies are a fixture at political parties’ conventions. Germany has conducted no large-scale campaign on the dangers of passive smoking, says Dr Pötschke-Langer. Despite boosting taxes recently, cigarettes are still cheaper than in Britain and Ireland. The share of the adult population that smokes has dropped from more than half in 1950 to around a third, but smoking rates remain among the highest in Europe.

Dr Pötschke-Langer thinks German innkeepers should embrace the “shift away from stinky and dark bars”. Bartenders retort that they and their customers should be free to choose stinkiness. After the constitutional court decides, it will turn to lighter fare: a ruling on the European Union’s Lisbon treaty.

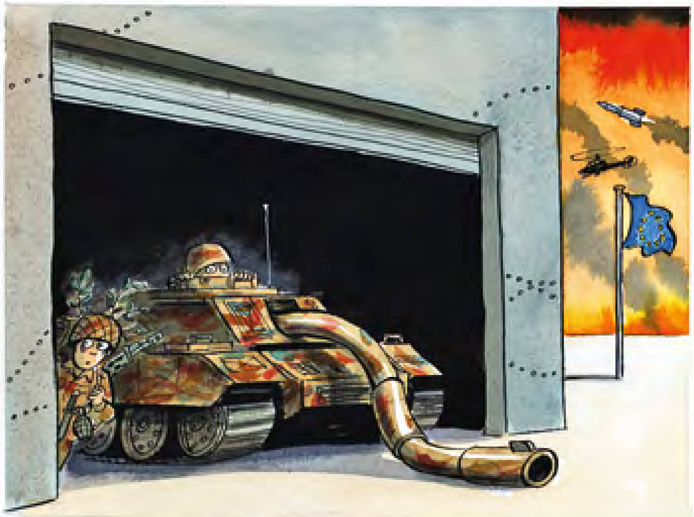
Charlemagne

# Defensive gestures

Jul 24th 2008
From The Economist print edition

**The next American president will be looking for more from Europe on defence**

Illustration by Peter Schrank



WITH luck, Belgian ears were burning on July 15th, when Barack Obama set out his transatlantic vision. Speaking just before a foreign jaunt that was to take in Berlin, Paris and London as well as the Middle East, Europe's favourite for the White House said it was "time to strengthen NATO, by asking more of our allies." The Democratic candidate added that he would send American reinforcements to Afghanistan, but use them as leverage to demand extra help from allies, with fewer restrictions.

Mr Obama's message was aimed precisely at countries like Belgium, a small but rich place with almost 40,000 men and women in its armed forces. Only 1,103 Belgian troops are deployed overseas. The largest contingent is with NATO in Afghanistan, guarding Kabul airport. But fearing casualties, the Belgian government has ruled that its troops may not leave the airfield. Another group serves with the United Nations in Lebanon, clearing mines and running a field hospital. Its deployment in 2006 sparked a squabble among Belgium's military trade unions over how dangerous the Lebanese mission might be. A few Belgians also serve in the EU mission in Chad: some 75 soldiers are busily building and repairing EU camps there.

Belgium may be an extreme example of Euro-timidity. But Germany also keeps its soldiers well away from Afghan regions with heavy fighting. Spain has some 150,000 men and women in its armed forces. Yet its Socialist government has ruled that no more than 3,000 Spanish troops may serve overseas at any one time (to avoid overstretch, it says). And so it goes on.

Both Mr Obama and his Republican rival, John McCain, say that they will pay more heed to allies who have felt snubbed these past seven years by George Bush. That sounds like an answer to European demands to be given a bigger role around the world. Unless, of course, those demands are not serious—in which case, the next American president may just be about to call Europe's bluff.

A decade has passed since the launch of the European Security and Defence Policy (ESDP), which was meant to combine Europe's civilian and political "soft power" with the cold steel of military "hard power". Endless targets have been set over those years, missed, and duly forgotten or rewritten. It is, for example, bad form to ask about the 60,000-strong EU "rapid reaction force", promised by 2003 but not seen since. A new, rather brutal report for the European Council on Foreign Relations, a think-tank, out next week, assesses the first ten years of ESDP. Its author, Nick Witney, recently retired as head of the European Defence Agency. He comes to two big conclusions.

The first is that money is not the main problem for European defence. In 2006 EU countries accounted for almost a quarter of world defence spending. Yet too many, says Mr Witney, spend “massive sums on irrelevance”. Several devote more than three-quarters of their defence budgets to personnel costs: maintaining armies of greying, pot-bellied dentists, cooks and clerks in khaki, rather than investing in expeditionary troops. An astonishing 70% of Europe’s land forces are deemed unable to operate outside their national territory (it is a “mystery” how they fill their days, says Mr Witney). And though some EU countries are willing to shoulder burdens (Estonia, the Netherlands, Sweden and Poland are among the toughies), most have the wrong weapons for global operations. Drones and helicopters are in short supply. Finland, with its memory of war with the Soviet Union, has the largest artillery force in Europe. With its eye on its Turkish neighbour, Greece boasts more tanks than any other EU country.

Second, Mr Witney concludes that for much of the past decade, George Bush has provided a marvellous excuse for Europeans reluctant to change the status quo. The excuse has worked equally for Bush-haters and for pro-Atlanticists. It has been easier for many EU countries to drag their feet over the NATO effort in Afghanistan, for example, because so many voters see the fight against the Taliban as just another misguided episode in Mr Bush’s war on terror.

## In support of NATO

It has also seemed logical for staunch Atlantic allies such as Britain to resist calls for EU-flagged defence projects if they seem to be aimed at undermining NATO as the preferred forum for international military action. (This was the case in the run-up to the 2003 Iraq war, when European opponents pushed for a more visible ESDP.) But America has changed its view. Senior American officials have been signalling greater willingness to embrace EU-flagged defence—seeing it as a price worth paying to get Europeans to take a bigger share of the West’s defence burden.

France wants European defence to be a centrepiece of its current EU presidency, and has even promised to rejoin NATO’s military structure to reconcile America (and Britain) to the idea of more European military co-operation. Yet French defence types are “despondent” about the British reaction, says Mr Witney. Britain’s defence establishment is busy in other wars and also fretful that the EU is planning wasteful duplication of things NATO now does (though the foreign secretary, David Miliband, recently said that Europe cannot always wait for NATO or America when military action is needed). British scepticism is a serious problem. Only two-and-a-half EU countries are serious expeditionary powers, which could make an independent ESDP really work: France, Britain and (the half) Germany.

Yet nobody should imagine that the European status quo on defence can last forever. Whoever wins the White House in November, the “George Bush” excuse for inaction is about to vanish. Europe will be asked to take its proper place in the new global order—whether it does it under a NATO or an EU flag. And when that happens, Europe’s present feeble military capability is going to look not just embarrassing, but indefensible.

The gas market

# Flaring up again

Jul 24th 2008
From The Economist print edition

**The end of self-sufficiency is proving painful for British consumers**

Alamy

THE last time oil prices were as high in real terms as they are today—in the dark days of the 1970s—the British had one reason to be cheerful. The discovery of large dollops of oil and gas beneath the North Sea was transforming the country from an importer of energy into an exporter, promising a big economic windfall and a degree of insulation from gyrating oil prices.

Today that cushion has gone. British output from the North Sea is well past its prime. Production peaked in 1999 and has declined rapidly ever since, turning Britain once again into a net importer of both oil and natural gas. Making matters worse, the fall in output has coincided with a rolling set of oil shocks that culminated in the latest surge since last autumn.

Since international gas prices tend to move in tandem with oil prices, households look set for a horrible surprise over their winter energy bills. On July 18th a report for Centrica, an energy firm, said that soaring costs would mean that gas bills would rise by perhaps two-thirds over the coming months, and stay high for the foreseeable future. The news did not go down well with consumer groups, especially after Jake Ulrich, Centrica's departing managing director, was reported as saying that customers might resort to wearing two sweaters this winter instead of one.

Yet Britain's gas market is changing fundamentally in ways that make it much more vulnerable to higher gas prices. As domestic supplies dwindle, Britain must make up the shortfall from overseas, either through pipelines from Europe or by buying shipfuls of liquefied natural gas (LNG) on the global market. Currently, North Sea production can supply around two-thirds of Britain's maximum demand; that will fall to around half as soon as 2010.

Expensive gas is particularly painful for Britain, which relies on the stuff to heat around 85% of its homes. The country also uses gas to generate around 40% of its electricity, a particularly high proportion that is set to rise still further over the next decade. All but one of Britain's doddery nuclear plants will be closed by 2023, and new environmental laws could mean that up to half of coal stations will have to shut down over the coming years. On current plans much of that capacity will be replaced by cheap, quick-to-build gas plants, boosting demand and making Britain even more reliant on flaky supplies from the international markets.

Consumers have already discovered just how vulnerable Britain is now that it is no longer self-sufficient.

In November 2005, in the midst of the coldest winter for years, gas prices quadrupled in the course of a few days. Later that winter, a fire at Britain's only big gas-storage facility provoked a smaller spike and prompted National Grid, which runs the gas and electricity supply networks, to give warning for the first time that there might not be enough gas to go around.

Despite the high prices, little gas flowed in from Europe, whose non-liberalised companies—often tied into murky long-term contracts—preferred to keep their gas reserves for their own consumers. LNG ships were notable mainly for their absence, with many diverted to the Far East to take advantage of Asia's willingness to pay even higher prices than Britain. Such volatility—exacerbated by a lack of storage, another legacy of the North Sea's past bounty—could be even more disruptive than higher prices.

Import facilities have since been beefed up. A big new pipeline from Norway, capable of carrying up to a fifth of peak demand, was completed in 2006; upgrades to an existing one from Belgium were finished in 2007. New LNG terminals in Kent and south Wales can receive gas cargoes from Algeria or Qatar and several gas stores are being built. But recent history suggests that British energy providers will have to pay over the odds to secure international gas. Ominously, and despite all the new capacity, National Grid's gas-supply forecast for the coming winter is its most uncertain for years.

Britain's shaky and pricey gas market will translate into pain for Gordon Brown. High oil prices have already forced one embarrassing climbdown, when a planned increase in petrol duty in October was postponed amid shrieks from motorists squeezed by record pump prices. Consumer-price inflation, at 3.8%, is almost two percentage points above the government's target. A big hike in gas bills will hurt households up and down the land, pushing up the overall inflation rate still higher, and stoking fiercer demands from disgruntled public-sector workers for pay rises that the government can ill afford.

High energy prices have already wrecked another government ambition, to reduce to zero the number of people living in "fuel poverty," defined as those spending more than 10% of household income on heating. Energywatch, a consumer watchdog, says that over 4m households are fuel-poor, a figure that has doubled since 2004, reversing an eight-year decline.

The malfunctioning gas market is now leading many—including, privately, some energy-industry bosses—to call into question Britain's entire model of liberalised energy markets, credited with keeping British gas prices lower than those in Europe for many years. The government argues that the situation would be greatly improved if Europe were to liberalise its markets along British lines, encouraging European firms to respond more quickly to British price signals. But with Brussels deciding against a forced break-up of Europe's gas giants earlier this month, ministers could be in for a long wait.

**Britain and America (1)**

# The ties that bind

Jul 24th 2008
From The Economist print edition

**Britain should worry less about its “special relationship” with America**

Illustration by Claudio Munoz

WHEN Gordon Brown and Barack Obama meet in London on July 25th, there will be much glad-handing and convivial talk. The encounter will be seen as a special meeting between two countries that have long enjoyed a special relationship. Despite this familiar refrain, an increasing number of British politicians and businessmen fret that the bond is fraying. They have a long list of grievances, ranging from the terms of an extradition treaty to America’s closure of its market to foreign internet-gaming companies and an unwillingness to share defence technologies (see article).

Few of these complaints are new. They are getting a fresh airing for two reasons. Mr Obama, who is keen to rebuild America’s image in the world, has taken British worries seriously. In May he reportedly spoke of the need to “recalibrate” the relationship. In Britain a prominent group of Atlanticist politicians including Lord Bell, once Margaret Thatcher’s public-relations man, Lord Desai, an economist, and Nicholas Soames, a Conservative MP, have formed a campaign aimed at airing and sorting out British grievances.

An underlying problem is that the two countries are deeply divided over what the “special relationship” really means. For many Britons, steeped in the lore of how English-speaking democracies rallied around Britain in the second world war, it is something to cherish. For Winston Churchill, who coined the phrase soon after the war, it was a bond forged in battle. On the eve of the war in Iraq, as Britain prepared to fight alongside America, Tony Blair spoke of the “blood price” that Britain should be prepared to pay in order to sustain the relationship.

In America, it is not nearly as emotionally charged. Indeed American politicians are promiscuous with the term, trumpeting their “special relationships” with Israel, Germany and South Korea, among others. “Mention the special relationship to Americans and they say yes, it’s a *really* special relationship,” notes sardonically Sir Christopher Meyer, a former British ambassador to Washington.

Yet far more binds Britain and America than divides the two countries. In its narrowest definition of defence, relations remain remarkably healthy. Britain and America routinely share intelligence and American missiles are the cornerstone of British nuclear deterrence.

And the ties between the two countries go well beyond defence. In business, they are already the best of friends. America is Britain’s biggest single export market (though Europe as a whole buys more from Britain). Both countries have long been each other’s biggest source and destination of foreign direct investment made by companies. More than 155,000 Americans live in Britain, many keeping the wheels of finance turning in the City, where they are unusually well represented. About one in seven chief executives of the FTSE 100 companies are American.

Culturally, the links are as deep. Surveys by the Pew Research Centre show that Britons are consistently America’s most ardent fans in Europe. Likewise Americans have far warmer feelings towards Britons (and Canadians) than towards other allies. A poll conducted for *The Economist* in March found that a clear majority of Americans think the two countries ought to have a closer relationship in the next few years.

Given the strength of the ties, Britain should be celebrating its relationship with America, not fretting about it. The problem, suggests Sir Christopher, is that in viewing it as uniquely special, Britain has suspended the usual rules of diplomacy. When Britain should be standing its ground with America, it frets instead about breaking the relationship. When it should be arguing the facts of a case, it hopes instead for

special treatment. A little more arguing between friends may be just what the relationship needs.

**Britain and America (2)**

# Points of contention

Jul 24th 2008
From The Economist print edition

### What needs to be fixed

BRITAIN'S relationship with America, though remarkably hale, is being damaged, some say, by "imbalances" in the areas of trade, justice and defence. These include:

**Extradition treaty**—A new extradition treaty signed between America and Britain in 2003 is seen as unfair because it has made it easier for America to extradite criminal suspects from Britain (with low requirements for evidence) than it is the other way round.

**Internet gambling**—America has closed its domestic gambling market to foreign (mainly British) internet betting companies despite clear rulings by the World Trade Organisation that the move is discriminatory.

**Extraterritorial laws**—Legislation such as the Helms-Burton Act and Patriot Act extends the reach of American law to other parts of the world, impeding trade and raising the risk that foreign firms and citizens may face prosecution in America for doing things that are legal in their home countries.

**Investment barriers**—America's domestic air travel market is closed to foreign airlines, whereas American firms have full access to Europe's.

**Defence—**British defence firms and its military worry that American efforts to close its markets and to limit exports of sensitive military technology do not take account of historical ties and will undermine further co-operation.

**Gordon Brown in Israel**

# A revealing visit

Jul 24th 2008 | JERUSALEM
From The Economist print edition

**The prime minister balances heart with head in his foreign policy**

Getty Images

**Following in his father's footsteps**

GORDON BROWN is not a naturally emotive politician. That habitual reserve made this week's visit to Israel striking and intriguing. It featured an address to the Knesset, Israel's parliament, on July 21st—the first by a prime minister of the old mandate-era power.

Mr Brown said that his father, a minister in the Church of Scotland, had a deep affection for Israel, which he visited frequently as chairman of the church's Israel committee. Brown senior would show his son films he had taken on those trips. "I will never forget those early images of your home in my home", said Mr Brown, adding that "for the whole of my life, I have counted myself a friend of Israel". With a liberal admixture of biblical allusions, he talked about an "ancient promise redeemed" in Israel's foundation, and its "unbreakable partnership" with Britain.

He has told the story before—and the enthusiasm does not go down well with everyone in the Labour Party. But in the Knesset it had a special resonance. Members applauded when he moved from Auschwitz to anti-Semitism and then to the threat from Tehran. "It is totally abhorrent for the president of Iran to call for Israel to be wiped off the map of the world," Mr Brown said, reiterating Britain's determination to prevent Iran getting a bomb.

The drawn-out and ugly political demise of Ehud Olmert, Israel's prime minister, meant that Mr Brown's visit got less attention in Israel than it perhaps deserved, though at least he avoided a clash with Barack Obama (unlike his visit to America earlier this year, when he overlapped with the Pope). After a meeting with Mahmoud Abbas, the Palestinian president, Mr Brown spoke of the "urgent need for…a viable Palestinian state." And offering his "honest analysis" to the Knesset, he urged a two-state solution based on the 1967 borders, with Jerusalem the capital for both. Reflecting the distinctive economic slant of his foreign-policy thinking, he pledged that Britain would lead the way in supporting "an economic road map for peace", citing Northern Ireland as a place where prosperity had discouraged violence.

Mr Brown visited Iraq on the same tour (and managed to get himself photographed in a pose that suggested he was manning a helicopter machinegun). Addressing his own parliament on his return, he anticipated a "fundamental change of mission in the first months of 2009", with Britain's role evolving from that of an occupier to an ally's. That is code for a further withdrawal of the 4,100 British troops still in southern Iraq—though having previously advertised a withdrawal that turned out not to happen, Mr Brown was careful to avoid a specific commitment, and to stress co-operation with both the Americans and the Iraqi government.

But his trip to Israel was in its way more revealing. His heartfelt speech was followed by the Israeli national anthem, sung by the male members of the Knesset choir. The Speaker (herself a woman) apparently decided to weed out the women, for fear their singing might offend ultra-Orthodox Jewish members. Pandering to the ultra-Orthodox is a sure sign, in the contorted codes of Israeli politics, of the bloody succession struggle now in prospect, as Mr Olmert is forced out. Perhaps Mr Brown could take some comfort in the signs that at least one other prime minister is going through even harder times than him.

Divorce and economic growth

# Negatively correlated

Jul 24th 2008
From The Economist print edition

**The impact of the downturn on your marriage depends how rich you are**

“AH, YES, divorce”, Robin Williams once mused, “from the Latin word meaning to rip out a man’s genitals through his wallet”. The derivation may not be found in dictionaries, but he was on well-trodden ground in linking divorce to money. This month a survey conducted among financial analysts, stockbrokers and hedge-fund managers by Mishcon de Reya, a law firm, suggested that the economic downturn will prompt an upsurge in divorces among high-earners in London’s financial centre.

This pattern is not without precedent; Sandra Davis, who commissioned the study, says that the recession of the early 1990s led to a wave of divorces among the City’s well-heeled. A third of current inquiries to lawyers by those deciding to break the knot, she claims, are linked to the credit crunch.

One explanation is that the defecting spouses of high earners are getting out before the crunch reduces the potential for lucrative settlements. As the City boom turns to bust, redundancies are becoming commonplace and hefty bonuses a distant dream. Since recent earnings are one of the factors taken into account in divorce settlements, it makes sense to divorce sooner rather than later. Others argue that money and the distractions it buys allow couples to avoid addressing difficulties in their relationship, which come to the fore in more straitened times.

For middle earners, the link between divorce rates and economic conditions is less clear-cut, not least since the main marital asset is houses rather than spouses. Rising inflation and falling house prices put pressure on marriages and might thus contribute to higher divorce rates. Yet the same factors also make splitting up more complicated. Falling property prices mean that selling the family home may not provide sufficient funds for two separate homes, especially now that lenders have become much more choosy. “A flagging economy clearly leads to an increase in misery; whether or not it causes a rise in the divorce rate is a moot point,” sums up Stephen Jenkins, director of the Institute for Social and Economic Research.

One consequence is that more couples are living together after divorce, which raises its own problems. Godfrey Freeman, chairman of Resolution, an association of family lawyers, points out that the lower-earning partners in such couples may find it harder to claim benefits. They are usually refused help, he says, on the grounds that their mortgage is being paid, even if they have no cash of their own to cover everyday expenses.

Divorce rates among some professions such as doctors, however, appear to be unaffected by economic fluctuations. And one group that seems even less likely to fall foul of the downturn is the divorce lawyers themselves.

Welfare reform

# Evolution, not revolution

Jul 24th 2008
From The Economist print edition

**Promising changes to out-of-work benefits, though not radical ones**

FEW causes animate Gordon Brown more than getting more Britons into jobs. A notorious workaholic, he often extols the dignity of labour. His efforts in government go back to the portentously titled New Deal, a workfare scheme for young people he started as chancellor in 1998. But the launch of a new round of welfare reform on July 21st by James Purnell, the work and pensions secretary, is a tacit admission that Labour has achieved too little in its decade of power.

True, the number of people claiming jobseeker's allowance (JSA), the main unemployment benefit, has roughly halved since 1997. But the decline was steeper towards the end of the last Conservative government and the number of those claiming incapacity benefit (IB), the benefit for those unable to work, has remained broadly steady at 2.5m.

Mr Purnell has got some new ideas for JSA claimants. Those still on the benefit after a year will be transferred from the government's job-finding agency to a private or voluntary specialist, which would be paid only if their charges found work and kept it. Long-term jobless will also have to do community work.

But incapacity claimants are the main target of the reforms. It has been obvious that many are capable of working since the 1980s, when the Tories shifted the victims of deindustrialisation on to the benefit as a ploy to keep the jobless rolls down. David Freud, a former banker who conducted a review of welfare policy for the government in 2007, implied in an interview this year that as many as 2m may be claiming IB unnecessarily.

Here, Mr Purnell's ambitions are grand. He wants all IB claimants to be medically reassessed by 2013. The incapacity benefit will be replaced by an employment-and-support allowance, which will take two forms. Those capable of eventually working will get bespoke help to do so, again from a range of providers. The rest will get a more generous benefit than IB offers.

Mr Purnell, whose star is rising (some speak of him as a potential Labour leader), has basked in the generally warm reception for his proposals. The Tories have pledged to back the approach in Parliament. But the acclaim should be checked by a couple of caveats.

One is that the reforms fall short of the "revolution" proclaimed by Mr Purnell. The goal of cutting the number of IB claimants by 1m by 2015 remains the same. Making benefits more conditional is not new, and the medical assessment for new IB applicants was changed in 2006 to emphasise what they can do rather than what they can't. Extending this to existing claimants is new and important. But the overall package is "an extension of what the government has done, and a reprise of what it should have done", says Mark Pearson, head of social policy at the OECD.

The other caveat is that the economy is souring, whereas when America made its successful welfare reforms in the mid-1990s jobs were becoming plentiful. And though reform may create savings in the long run, it initially costs money—and the public finances are already in a mess. Stephen Timms, a minister in Mr Purnell's department, points to the 600,000 vacancies in the economy and says the government is working for the long term. Labour may find in that case that it is a Tory government that reaps the benefit.

Monetary policy

# A warning vote

Jul 24th 2008
From The Economist print edition

**If interest rates move, the direction will be up rather than down**

AS THE economy stumbles and inflation surges, the Bank of England's rate-setters face a predicament. Should they cut interest rates to help ward off a severe downturn? Or should they raise rates in an effort to tame inflation?

The obvious response to such a dilemma is to stay put and that is exactly what the central bank's monetary-policy committee (MPC) did when it met on July 10th. For the third consecutive month, the MPC kept the base rate at 5.0%.

However, the minutes of that meeting, published this week, revealed an unexpected three-way divide among the nine rate-setters. As before, David Blanchflower, the MPC's resident dove who is most worried about the risk of recession, wanted a quarter-point cut. But Tim Besley voted in favour of raising the base rate to 5.25%. The other seven members backed keeping rates on hold.

Mr Besley acknowledged the downside risks to the economy from the energy shock and the credit crunch. But he argued that, with inflation rising sharply, tighter policy was essential to underpin the credibility of the committee's inflation-fighting resolve. Such a signal was necessary to prevent the rebirth of an inflationary mentality in Britain.

The significance of Mr Besley's vote is that it could prove a harbinger of the MPC's stance when it next meets, in August. Although he may have been the sole hawk this month, the overall tone of the committee's deliberations was also hawkish, according to City analysts. There is already a precedent. The European Central Bank raised its policy rate by a quarter point in early July in order to send just such a message of intent to price-setters and wage-negotiators.

Even so, the majority view among the Bank of England's rate-setters was that the intensifying slowdown should open up enough spare capacity to deal with the deteriorating prospects for inflation. Keeping the base rate on hold when the economy was slowing was "arguably already sending a strong signal of the MPC's commitment to reducing inflation", said the minutes.

Further evidence of a weakening economy came on July 23rd in a report from the Confederation of British Industry. This showed a big decline in business confidence among manufacturers, as they struggle against soaring cost pressures and falling orders, especially in the domestic market.

This bleak industrial picture will strengthen the arguments for keeping rates on hold. That remains the most likely outcome of the MPC's next meeting. But if the Bank of England does decide to change rates, the direction will be up rather than down.

School tests

# F for fail

Jul 24th 2008
From The Economist print edition

**Chaotic marking threatens the government's school league tables**

ON JULY 22nd, the day before MPs broke up for their summer holidays, the schools secretary, Ed Balls, had the unpalatable task of telling the House of Commons that many schoolchildren would be heading off for their own vacations without the results of their Standard Assessment Tests (SATs), taken in May.

A quarter of the English tests taken by 14-year-olds remained unmarked, the minister admitted, and a fifth of primary schools were still awaiting results for some 11-year-olds. Mr Balls did his best to deny responsibility, citing the arms-length overseeing of the tests by the Qualifications and Curriculum Authority, a government agency, and its contract with ETS, an American firm, to administer them. But it was an embarrassment for a government and a minister, who have placed great store by national testing and the schools league tables constructed from their results.

Making matters worse, the schools that have received their results are as unhappy as those that have not. The National Association of Head Teachers says it is receiving "unprecedented" numbers of complaints about the quality of marking; it is advising its members to appeal if they have any doubts about their pupils' grades.

Teachers are enjoying a rare moment of *Schadenfreude*. League tables compiled using SATs and GCSEs are regularly used by the government as a stick to beat schools with. Only last month Mr Balls threatened 638 secondary schools with closure if they continue to have less than 30% of their pupils getting five good GCSEs. The National Union of Teachers has said that if the tales of poor marking are confirmed, all the results should be annulled. Even if they are not, schools found wanting on the basis of this year's SATs are unlikely to take it lying down.

Lord Sutherland, a former chief inspector of schools, is carrying out an inquiry into the fiasco, due to report in the autumn. Meanwhile, the government and its agencies must decide who will mark the SATs next year. Letting ETS carry on for four more years, as it is contracted to, might make sense if teething troubles have been sorted out. Though the firm is understood to face hefty penalties for missing its deadline, it might itself be due a big pay-off if it were dumped early. Few think that Mr Balls would countenance it continuing—but paying it for failure would also hurt.

The most pressing problem, though, is lack of time to make other arrangements, of which few are on offer. The contract with ETS was signed 18 months before its debut; only nine months remain before next summer's exams. Classroom teachers could perhaps step in—they already mark tests taken by seven-year-olds. That, though, would take some sweet-talking: teachers hate SATs, which they blame for narrowing the curriculum.

Or the government could turn to the only one of Britain's three big exam boards to bid this time round: Edexcel, which was undercut by EtS. It ran the tests before and could presumably do so again, although it would no doubt drive a hard bargain. Mr Balls may be in the clear this time—after all, he was still at the Treasury when ETS was brought on board. But he still faces a tough test: rescuing the SATs.

**Eco-towns**

# Green, with hints of Brown

Jul 24th 2008 | FORD, WEST SUSSEX
From The Economist print edition

**The green towns of the future run into more opposition**

FORD, a one-pub hamlet between the South Downs and the sea, is home to just 1,400 people. They are lucky: with its winding river and views of Arundel castle, the village is beautiful. Soon, many more might enjoy its charms. The settlement has been shortlisted as the site of an “eco-town”, comprising 5,000 homes, shops, schools, offices and a power-plant. Residents are aghast, and have banners in their gardens saying so.

In all, 13 quiet spots are being considered for eco-towns (see map). The government has promised five by 2016 and up to five more by 2020. Some will provide up to 15,000 homes. At least 30% of the dwellings will be “affordable”. Carbon neutrality, green space and reliance on bikes and buses are said to justify the “eco” tag. The chosen sites will be announced in early 2009.


The neighbours are not the only critics. For one thing, eco-towns are no solution to Britain’s housing shortage: even the ten biggest ones would create barely 100,000 homes, some 3% of the 3m dwellings the government wants to build by 2020. Even fewer may be built as homebuilding slumps. Eco-towns, with their ambitious quotas for cheap housing, will look less promising for developers in a sustained housing downturn.

Their greenness is also questioned. All new homes, eco or not, will be carbon neutral by 2016, and public buildings are likely to follow a few years later. Eco-towns will lead the way, but perhaps modestly. Some may even turn out rather dirty: sited in the sticks, residents are likely to need cars. The government says they will be big enough for people to shop, work and study locally. But Lord Rogers, an architect and Labour peer, disagrees: “Building in green areas for 5,000 to 10,000 people has to be car-based. It goes against everything we know about sustainability.”

Locals feel frozen out of the planning process, which is being led by central government. On July 23rd the Local Government Association said the process may be illegal. The government just wants “to avoid…proper scrutiny, which takes time,” its lawyers suggested.

Saving time has its merits: the snail’s pace of local planning would have stopped eco-towns being early exemplars of green good practice, as desired. But if the government is to skip full scrutiny, it must be strict with itself. Some sites are promising: Bordon-Whitehill, an old garrison town in Hampshire, would love new residents when its squaddies move out. Their plan is backed by the Campaign to Protect Rural England. In Imerys, a putative eco-town in Cornwall that would be built on an old clay mine, locals are similarly enthusiastic.

But bad projects may be let through to bulk up the numbers. “Eco-towns will work if they pick a small number of the very best schemes,” says Dermot Finch of the Centre for Cities, a think-tank. “If they go for numbers it will backfire.” Mr Brown needs to find ten sites to avoid accusations of a u-turn. That would cause him more pain than protests in little Ford. But he might consider posterity—after all, the Brown-green-towns will be around longer than he will.

Bagehot

# Wink, wink

Jul 24th 2008
From The Economist print edition

**The Tories are placing too much faith in interesting but limited ideas**

Illustration by Steve O'Brien

SCANDINAVIANS rarely litter. Italians drink in moderation. Mugging is uncommon among the Arabs. Mexicans look after their grannies. Rich Americans give generously to charity. And politicians—especially, these days, in the Conservative Party—are susceptible to snazzy theories whose time seems to have come.

The importance of groupthink is one of the fashionable ideas to which the Tories are newly in thrall. The originators of these ideas are a loose school of like-minded academics, mostly Americans and either social psychologists or behavioural economists. Their basic insight is that human beings are fallible: lazy, stupid, greedy and weak; loss-averse, stubborn, and prone to inertia and conformism. All that makes them poor decision-makers, often incapable of their own happiness. But, these writers argue, people can be prompted to make better decisions, for example via information campaigns and the promotion of positive "social norms". The underlying political philosophy is "libertarian paternalism", a hybrid creed that holds that government can and should sway citizens' behaviour, so long as it stops short of prohibition or compulsion: by steering choices rather than constraining them.

David Cameron, the Tory leader, has talked reverentially about "social norms" in speeches about the family, the environment and the voluntary sector. He has referred glowingly to two catchily titled books: "Influence" by Robert Cialdini of Arizona State University, and "Nudge" by Richard Thaler and Cass Sunstein of the University of Chicago. Just published in Britain, "Nudge" argues that, in areas such as organ donation or pensions provision, governments can legitimately change their citizens' "default" options, or coax them into making choices they might otherwise avoid. George Osborne, the clever but excitable shadow chancellor, bragged in a recent newspaper article that the Tories were "at the forefront of this new intersect", extolling this enthusiasm as "yet more proof that the Conservative Party is now the party of ideas in British politics".

There are at least three reasons why this agenda appeals to the Tories. The first is its ideological timeliness. Most British politicians agree, at least rhetorically, that big-government, Whitehall-centred policies are now obsolete. "Nudge" and the rest seem to offer a role for the state that is less intrusive, yet more engaged than the callous laissez-faire attitude sometimes associated with the Tories—a role suited to the digital and globalised age, with its empowered but sometimes overwhelmed consumers. It is a model that may also help to resolve the tension between the libertarian and authoritarian tendencies within the Conservative Party itself. The second attraction is that, at a time when the exchequer is skint, the policies involved seem mercifully cheap. Finally (to borrow a phrase from a well-known British

television advert), it's got an "ology". With no equivalent to Tony Blair's "Third Way", Mr Cameron's team is often said to lack intellectual backbone. This thinking carries the imprimatur of science and philosophy. Better yet, Barack Obama is interested in it too.

It is easy to see why, like Homeric sailors mesmerised by the Sirens, the Tories find these ideas hard to resist. But if they truly believe them to be revolutionary, the Tories have been caught in just the sort of cognitive trap their new mentors describe.

In fact, the authors of "Nudge" acknowledge that their approach is both limited—"I don't think we're going to nudge Osama bin Laden," Mr Thaler says, "but maybe we can make progress on litter"—and old, in practice if not theory. Lots of the techniques they recommend are commonplace in retail and advertising. Deals that begin with free samples, then require customers to opt out to avoid paying, rely on inertia. Adverts that cite the popularity of their brands harness "social norms". Politicians are already at it too: "Nudge" is as much descriptive as prescriptive, adducing, among other initiatives, the opt-out organ-donation schemes in some countries, the cap-and-trade system of emissions control and a wheeze that improves aim in Dutch urinals.

## If it's broke, fix it

So it is perhaps not surprising that when the Tories try to set out the practical applications of their new thinking, the list seems short. They want a cooling-off period between a shopper signing up for a loyalty card in a store and his getting to use it. They want household-energy bills to let consumers compare their usage with the average. They want to use the tax system to signal society's approval of marriage (as it formerly did).

That's almost it—though one other suggestion is revealing. Mr Osborne wants to use cash rewards to nudge people to recycle their rubbish. That looks rather like Labour's efforts to make people behave desirably by paying them, for example, to stay in school. The psychology behind the Tory proposal may be new; but the actual solution is rather old-fashioned.

One big reason for this skimpiness may be that nasty behaviour—such as the propensity of some British teenagers to drink too much, get pregnant or stab each other—is often symptomatic of a deeper malaise: skewed values, social atomism, despair and so on. (The same is true of good behaviour: Norwegians don't litter in part because of civic pride and a strong collective identity.) Such pressing problems will sometimes require the state—and a Tory government—to make hard-edged interventions. For all their grumpiness towards government, most voters expect and want such activism, particularly over crime.

Mr Cameron has talked moralistically and hyperbolically about Britain's "broken society", which he says is riven by welfare dependency, violence and family breakdown. By so doing he may come to seem both unappealingly gloomy and—unless he comes up with credible ways to mend the alleged tears—impotent. He does not, to be fair, claim that "social norms" and the rest can fix it all. But the Tories' talk of nudge-nudge risks looking like a wink-wink admission that there is nothing they can do.

Cyber-nationalism

# The brave new world of e-hatred

Jul 24th 2008
From The Economist print edition

**Social networks and video-sharing sites don’t always bring people closer together**

Illustration by David Simonds


“NATION shall speak peace unto nation.” Eighty years ago, Britain’s state broadcasters adopted that motto to signal their hope that modern communications would establish new bonds of friendship between people divided by culture, political boundaries and distance.

For those who still cling to that ideal, the latest trends on the internet are depressing. Of course, as anyone would expect, governments use their official websites to boast about their achievements and to argue their corner—usually rather clunkily—in disputes about territory, symbols or historical rights and wrongs.

What is much more disturbing is the way in which skilled young surfers—the very people whom the internet might have liberated from the shackles of state-sponsored ideologies—are using the wonders of electronics to stoke hatred between countries, races or religions. Sometimes these cyber-zealots seem to be acting at their governments’ behest—but often they are working on their own, determined to outdo their political masters in propagating dislike of some unspeakable foe.

Consider the response in Russia to “The Soviet Story”, a Latvian documentary that compares communism with fascism. If this film had come out five years ago, the Kremlin would have issued an angry press release and encouraged some young hoodlums to make another assault on Latvia’s embassy. Some Slavophile politicians would have made wild threats.

These days, the reaction from hardline Russian nationalists is a bit more subtle. They are using blogs to raise funds for an alternative documentary to present the Soviet communist record in a good light. Well-wishers with little cash can help in other ways, for example by helping with translation into and from Baltic languages.

Meanwhile, America’s rednecks can find lots of material on the web with which to fuel and indulge their prejudices. For example, there are “suicide-bomber” games which pit the contestant against a generic bearded Muslim; such entertainment has drawn protests both in Israel—where people say it trivialises terrorism—and from Muslim groups who say it equates their faith with violence. Border Patrol, another

charming online game, invites you to shoot illegal Mexican immigrants crossing the border.

From the earliest days of the internet the new medium became a forum for nationalist spats that were sometimes relatively innocent by today's standards. People sparred over whether Freddy Mercury, a rock singer, was Iranian, Parsi or Azeri; whether the Sea of Japan should be called the East Sea or the East Sea of Korea; and whether Israel could call hummus part of its cuisine. Sometimes such arguments moved to Wikipedia, a user-generated reference service, whose elaborate moderation rules put a limit to acrimony.

But e-arguments also led to hacking wars. Nobody is surprised to hear of Chinese assaults on American sites that promote the Tibetan cause; or of hacking contests between Serbs and Albanians, or Turks and Armenians. A darker development is the abuse of blogs, social networks, maps and video-sharing sites that make it easy to publish incendiary material and form hate groups. A study published in May by the Simon Wiesenthal Centre, a Jewish human-rights group, found a 30% increase last year in the number of sites that foment hatred and violence; the total was around 8,000.

Social networks are particularly useful for self-organised nationalist communities that are decentralised and lack a clear structure. On Facebook alone one can join groups like "Belgium Doesn't Exist", "Abkhazia is not Georgia", "Kosovo is Serbia" or "I Hate Pakistan". Not all the news is bad; there are also groups for friendship between Greeks and Turks, or Israelis and Palestinians. But at the other extreme are niche networks, less well-known than Facebook, that unite the sort of extremists whose activities are restricted by many governments but hard to regulate when they go global. Podblanc, a sort of alternative YouTube for "white interests, white culture and white politics" offers plenty of material to keep a racist amused.

## Tiny but deadly

The small size of these online communities does not mean they are unimportant. The power of a nationalist message can be amplified with blogs, online maps and text messaging; and as a campaign migrates from medium to medium, fresh layers of falsehood can be created. During the crisis that engulfed Kenya earlier this year, for example, it was often blog posts and mobile-phone messages that gave the signal for fresh attacks. Participants in recent anti-American marches in South Korea were mobilised by online petitions, forums and blogs, some of which promoted a crazy theory about Koreans having a genetic vulnerability to mad-cow disease.

In Russia, a nationalist blogger published names and contact details of students from the Caucasus attending Russia's top universities, attaching a video-clip of dark-skinned teenagers beating up ethnic Russians. Russian nationalist blogs reposted the story—creating a nightmare for the students who were targeted.

Spreading hatred on the web has become far easier since the sharp drop in the cost of producing, storing and distributing digital content. High-quality propaganda used to require good cartoonists; now anyone can make and disseminate slick images. Whether it's a Hungarian group organising an anti-Roma poster competition, a Russian anti-immigrant lobby publishing the location of minority neighbourhoods, or Slovak nationalists displaying a map of Europe without Hungary, the web makes it simple to spread fear and loathing.

The sheer ease of aggregation (assembling links to existing sources, videos and articles) is a boon. Take anti-cnn.com, a website built by a Chinese entrepreneur in his 20s, which aggregates cases of the Western media's allegedly pro-Tibetan bias. As soon as it appealed for material, more than 1,000 people supplied examples. Quickly the site became a leading motor of Chinese cyber-nationalism, fuelling boycotts of brands and street protests.

And then there is history. A decade ago, a zealot seeking to prove some absurd proposition—such as the denial of the Nazi Holocaust, or the Ukrainian famine—might spend days of research in the library looking for obscure works of propaganda. Today, digital versions of these books, even those out of press for decades, are accessible in dedicated online libraries. In short, it has never been easier to propagate hatred and lies. People with better intentions might think harder about how they too can make use of the net.

**Smoking**

# Stub out that weed for ever

Jul 24th 2008 | NEW YORK
From The Economist print edition

### A powerful duo against a doughty foe

AFP

WHEN two of the world's richest and mightiest men pledge to destroy an enemy, it is time to pay attention. Bill Gates, the former boss of Microsoft who now devotes all his time to his charitable foundation, travelled this week to New York, the city run by Michael Bloomberg, to join his fellow billionaire's campaign to stamp out smoking.

Have the two potentates met their match? Despite decades of work by health campaigners, more than one billion people still smoke today. Smoking kills up to half of those who fail to quit puffing, reducing their lives by an average of 10 to 15 years. The World Health Organisation (WHO) says more than 5m people a year die early from the effects (direct or indirect) of tobacco. That exceeds the combined toll of HIV/AIDS, tuberculosis and malaria.

Despite that dismal situation, there are three reasons to give the latest pair of campaigners a slim chance of success: money, methods and motivation. Messrs Gates and Bloomberg vowed to spend a combined total of $500m on discouraging the weed. Since Mr Bloomberg's charity had already announced an award of $125m earlier, the new money pledged this week totalled a “mere” $375m: $250m from the mayor, and a fresh $125m from the software magnate's philanthropic outfit.

How will this cash be spent? In quite innovative ways, and that is a second reason for optimism. Hitherto, most anti-smoking funds have been channelled through a few large bureaucracies. But Mr Bloomberg's charity wants to let a thousand flowers bloom: in other words, to lend a hand to many initiatives, both public and private, to see what works. There will be a competitive grant scheme for poor countries where the tobacco habit is spreading.

The very fact that two giants are teaming up is a landmark in American philanthropy—comparable to Warren Buffett's decision, two years ago, to put his fortune at the disposal of Mr Gates's foundation. As part of their joint commitment, Mr Gates is giving some of his $125m directly to Mr Bloomberg's charity; the rest will go to carefully monitored projects in India, China and other places where the number of smokers is rising relentlessly.

Then there is motivation. There are other big players in this cause, and that should induce every new entrant to try bringing something fresh to the party. Earlier this year the WHO started a campaign against tobacco known as MPower. One of its selling points was that in contrast with many other projects, it had a fairly clear idea about what was needed. WHO experts have listed a series of tactics, ranging from aggressive public education to a rise in tobacco taxes, that deliver results. (Even if high taxes lead to some smuggling and diversion, studies done in Brazil, for example, show that fiscal measures do curb consumption.) The World Bank, which funded that research, is also thought to be

ready to join the anti-smoking scrum after years of paying little attention.

A crowded field, indeed. But having an extra $500m from two hard-driven billionaires surely won’t hurt.

Economist.com WORLD INTERNATIONAL

Global Islam

# Unusual guests, a most unusual host

Jul 24th 2008 | MADRID
From The Economist print edition

**A new breeze may be blowing very softly from the Saudi sands**

AP

**We must go on meeting like this: the ubiquitous Mr Blair with King Abdullah**

PEOPLE are used to the idea that the authorities of Saudi Arabia play a pivotal role in the world of Islam, both within Muslim lands and among Muslim minorities that are struggling to reconcile their faith with life in the West. Anywhere from Los Angeles to Kuala Lumpur, you can walk into a brand-new mosque and sense the influence of Saudi cash—over the architecture, the reading matter and the training and style of the imam. And there are many observers of global Islam who see that influence as baleful: promoting puritanism, intolerance of other forms of faith (including less conservative kinds of Islam), rejecting many of the artistic, literary and scholarly traditions that make the Muslim world so rich and varied.

Indeed there are scholars who ascribe many of the pathologies of today's Muslim world, from violence to intolerance, to the alliance that formed in the 18th century between Muhammad ibn Abd al-Wahhab, an ultra-conservative Muslim thinker, and the royal house of Saud. And there are some who blame Britain for using its influence in the 1920s to consolidate the power of the house of Saud and its clerical allies.

What people are not used to is the idea of Saudi Arabia and its monarch, King Abdullah, as a propagator of tolerance both within Islam, and between Islam and other faiths. Yet this month the king stepped up his effort to be a cultural and religious bridge-builder by convening a "World Conference on Dialogue"—as dreamily inclusive a title as anyone could ask for—in Madrid. The guest list included Tony Blair (now a ubiquitous figure on the inter-faith circuit), the American pastor-politician Jesse Jackson (who glad-handed everyone as though he was running for president of some global religious body) and saffron-robed Hindus as well as rabbis and Christian prelates. The Saudi visitor, standing beside King Juan Carlos of Spain in the sun-filled atrium of the Palacio Real, beamed like a benign grandfather as he took in a line of robed clerics and worthies.

Has the king—or even the whole kingdom—had a change of heart? One thing that shows no sign of altering is the Saudi monarch's insistence that his own role, epitomised by his title as "Custodian of the Two Holy Mosques", should transcend Saudi borders and extend to the whole Muslim world. He once chided a Chinese official who called the kingdom a great nation because of its oil. No, the king insisted, "we are great because of our religion."

In truth, the kingdom's influence in religious affairs has much to do with oil. Over the past quarter-century, the outpouring of Saudi money to the world's mosques, madrassas and Muslim institutions has ebbed and flowed with the price of crude. There is not a single significant Muslim population in the world that has been untouched by Saudi funding, says Reza Aslan, an American writer on Islam, and the effect

has “mostly been negative.”

Yet since taking the throne three years ago, the monarch has presented himself as an opponent of “extremism”, which he often describes as “deviancy” from Islam at its best; and he has urged his compatriots (including the ultra-conservative clergy that still holds a lot of power) to be ready for dialogue with other faiths.

Is this anything more than rhetoric? There is little sign of change on the domestic scene. Saudi Arabia bans churches (and all other non-Muslim houses of worship) on its soil and refuses visas to Israelis. Discrimination against Ismaili and Shia Muslims remains rife, although it has eased under the present king. The religious establishment continues to be obscurantist, even medieval. An Islamic judge recently sentenced a woman who had been gang-raped to dozens of lashes. Her crime? Being with an unrelated man in a car before the rape.

A more open question, perhaps, is whether there is some change in the role played in global Islam by Saudi-backed institutions, such as the Muslim World League (MWL), which formally hosted the Madrid meeting. Till recently, the MWL seemed like a bastion of the back-to-basics fundamentalism that draws second-generation Muslims in Europe away from the culturally rich forms of Islam practised by their Pakistani or Algerian parents.

So, is the MWL changing its stripes? Yes, partially, says Adel Toraifi, a Saudi columnist who has been critical of it in the past; it no longer produces the deadly mix of political grievance and hardline theology that it purveyed globally in the 1980s and 1990s. But “it’s not the Oxford University debating society either,” he concedes.

In fact, the MWL’s old-time credentials might just make it a plausible spreader of a gentler message. In the words of Vali Nasr, a scholar at America’s Tufts University, an initiative in the Muslim world “must be respected not in London and Washington but in Jakarta and Karachi, and the MWL has credibility in those places.” It can also be argued that King Abdullah has more credibility as an inter-faith conciliator than did his predecessor, King Fahd. Because he is devout and free of the playboy image that besets some other Saudi royals, he should be better-placed to stand up to reactionary clerics. As Mr Toraifi puts it, the king “is widely known as a pious person, so he doesn’t feel the need to appease the conservatives.”

Given that jihadist violence—seen by many people as a by-product of reactionary Saudi theology—has touched the kingdom itself, as well as cities like New York and London, the king has every incentive to use his influence to steer global Islam in a more moderate direction. But to succeed abroad, he may need to succeed more at home, and that looks very hard.

**Pharmaceuticals**

# All together now

Jul 24th 2008 | NEW YORK
From The Economist print edition

Illustration by David Simonds


**Liberalisation and the quest for scale are pushing generic-drugs firms to merge**

“THE mighty Israeli Pacman gobbles down another one.” That is how analysts at Credit Suisse, an investment bank, greeted news of the latest takeover bid by Teva, an Israeli firm that is already the world’s largest generic-drugs manufacturer. The offer, for Barr, an American rival, is valued at more than $7 billion. Success would speed Teva towards its ambitious goal, announced earlier this year, of doubling its revenues by 2012, to $20 billion.

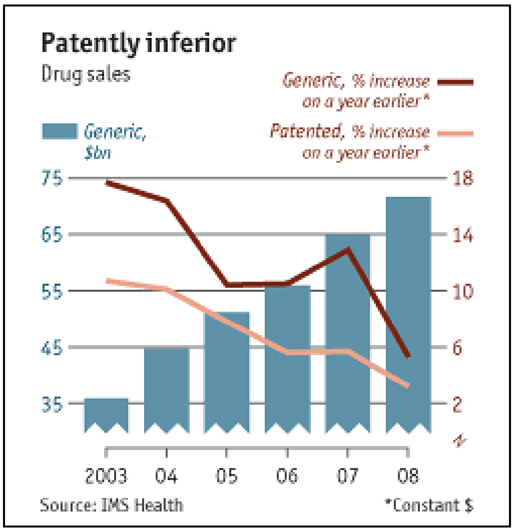
The bid for Barr is the latest in a string of deals upending the generics business. On July 23rd GlaxoSmithKline, a British pharmaceutical giant, said it would enter the generics market through a joint venture with Aspen, a South African firm. In June Japan’s Daiichi Sankyo bought Ranbaxy, India’s biggest generics firm, for $4.6 billion. Barr and Mylan, another big American generics firm, have been busy acquiring smaller firms. Actavis, a once-obscure Icelandic generics outfit, has swallowed over two dozen rivals in the past decade to become a global force. And France’s Sanofi-Aventis, a traditional pharmaceutical firm, is now attempting to win full control of Zentiva, a Czech generics firm in which it has a minority stake.

Shlomo Yanai, the boss of Teva, is convinced that there are more deals to come, although he says his firm does not plan any. Robert Wessman, the boss of Actavis, expects Mylan to be a target soon. Robert Coury, Mylan’s vice-chairman, rejects that notion, but he nevertheless agrees that further consolidation is inevitable. Survival for generics firms, he insists, now depends on “scale, scale, scale, scale, scale!”

This slightly paranoid fervour seems odd at first, given the apparent health of the generics industry. It enjoyed $72 billion in sales last year, and is growing faster than the conventional drugs business (see chart). IMS Health, an industry research firm, reckons that $130 billion of prescription pills will go off patent by 2012, creating a huge opening for generics. But that good news is tempered by two big trends: liberalisation and commoditisation.

There have long been two very different kinds of generics markets: genuinely competitive ones, like those found in America, Britain, the Netherlands and Scandinavia, and coddled ones, like those of Japan, the rest of continental Europe and much of the developing world. The competitive markets are now becoming “hyper-competitive”, in the words of Mylan’s Mr Coury. Generics

make up nearly two-thirds of the American drugs market by volume, but only 13% by value. Customers, ranging from pharmacy chains to middlemen known as “pharmacy benefits managers”, are rapidly consolidating and so gaining greater power over prices.




Competition is also spreading to places that used to protect domestic firms from foreign rivals, allowing them to preserve much higher margins. Concerns about the soaring cost of health care have prompted a change of heart in Germany, for example, once one of the world’s most closed (and expensive) markets for generics. The European Commission is encouraging other European governments to follow suit.

Japan, an even bigger prize, is also opening up. Viren Mehta, an industry expert who advised Daiichi Sankyo on its acquisition of Ranbaxy, observes that the country’s health-care system pays local pharmaceutical firms some $30 billion a year for drugs that are no longer protected by patent, and would cost $3 billion in America. But the Japanese government has decided to cut its bills by making life easier for foreign competitors.

Cut-throat competition, in turn, is prompting generics firms to expand, to achieve economies of scale. One way is to join forces with their traditional enemies, the big pharmaceutical firms. The combination of Daiichi Sankyo and Ranbaxy will benefit not only from the latter’s cheap manufacturing capacity, but also from a bigger customer base, according to Malvinder Singh, Ranbaxy’s boss. Novartis, a Swiss pharmaceutical giant, is following a similar model with Sandoz, its in-house generics arm.

Many think such hybrids are unwieldy, given the starkly different cultures of scrappy generics firms and lumbering pharmaceutical giants. So most generics firms will probably look to merge with peers. They will also integrate vertically, says Kevin Scotchter of HSBC, an investment bank, by adding research arms or divisions to conduct clinical trials. Actavis, for example, spends about €150m ($236m) a year on research and development, in an effort to differentiate its wares from those of its rivals. But that, in turn, adds a further incentive to grow, to help defray such big overheads.

Generics firms, in other words, are becoming more like traditional pharmaceutical firms, although they tend to pursue tweaks to their existing products, rather than entirely new blockbuster drugs. But even research and development is becoming something of a commodity these days. Ronny Gal of Sanford Bernstein, a financial research firm, observes that even though it requires a lot of computing power and know-how to improve a drug, the necessary skills and equipment are becoming quite widespread. The copycats, after all, can also be copied.

There is one growth opportunity that will require even greater technical sophistication and deeper pockets: “biosimilars”. Instead of replicating pills based on chemistry, these mimic newer biotechnology drugs. The new generics giants have the heft to invest in such products—and are doing so. Within a decade, they hope, the market for biosimilars could be as big as the entire generics trade today.

**Business in India**

# A lost connection

Jul 24th 2008 | DELHI
From The Economist print edition

**The collapse of Reliance Communications' merger talks with MTN raises India's biggest family feud to a dangerous level**

UNTIL recently, the longstanding and vicious feud between the Ambani brothers, Mukesh and Anil, had not done them or India much harm. When their mother divided their inheritance, Reliance, India's biggest conglomerate, between them in 2005, its market capitalisation was $22.5 billion. The resulting offspring, Mukesh's Reliance Industries (RIL) and Anil's Reliance Anil Dhirubhai Ambani Group (RADAG) now have a combined valuation of over $170 billion. *Forbes* rated the feuding pair as the world's fifth (Mukesh) and sixth (Anil) richest men.

But the dispute now seems to have entered a more destructive phase. On July 18th MTN, a South African mobile-phone operator, pulled out of merger talks with Anil's Reliance Communications (RCOM), India's second-biggest mobile operator. MTN blamed "legal and regulatory issues", an apparent reference to Mukesh's efforts to prevent the deal. Anil had proposed to trade most of his 66% stake in RCOM to become the largest shareholder in MTN. But Mukesh claimed that he had right of first refusal over Anil's stake. RCOM said that claim was "untenable, baseless and misconceived". But the damage was done.

EPA

In happier (and poorer) times

The separation of Reliance left Mukesh, the elder brother, in control of its petrochemical, oil and gas, refining and manufacturing divisions. Anil got a smaller portion, including ventures in telecoms, financial services and power. The brothers agreed not to compete against each other. Their subsequent success, driven not least, it is said, by the desire to outdo one another, has been staggering.

Each brother, meanwhile, has accused the other of repeated attempts to spoil his business. The biggest row centres on gas. Under the terms of their divorce, RIL was to supply gas pumped from the huge field it presides over in the Krishna-Godavari basin, off India's eastern coast, to RADAG's Reliance Natural Resources (RNR) at a fixed price. But the petroleum ministry, which wants Anil's company to pay a higher rate for the promised gas, has overturned the arrangement. RIL naturally welcomed this. RNR is contesting it in court.

There have been many more clashes. Anil's Reliance Power has challenged Mukesh's plans to build his own power plants. Anil's advisers also suspect their counterparts in RIL of shorting RADAG shares. This, they claim, contributed to the embarrassment of Reliance Power's initial public offering, the biggest in Indian history: the share price fell by 17% on the first day of trading. Mukesh's camp has accused RADAG, among other sins, of making an unrealistically low bid to build a 22km (14-mile) sea bridge off Mumbai, purely to scupper RIL's offer. Faced with the prospect of an interminable legal wrangle between the two groups, the state government said last month that it would build the bridge itself. This is one of several infrastructure projects that the brothers have warred over in Mumbai, where they live on separate floors of the family's splendid apartment block.

Yet the MTN debacle is of a different order. This was by far the biggest foreign sortie attempted by either brother: it would have created a mobile giant, with 115m customers in 23 countries and estimated annual revenues of $14.4 billion. The rancorous circumstances of the deal's demise have therefore spread far. Indeed, in a time of near-crisis for India's government, the poison has seeped into national politics.

Anil is close to an ally of the coalition government, the Samajwadi Party, which has lobbied for policies harmful to RIL, including a ban on exports of petroleum products. Some speculate that the purpose of Mukesh's recent and much-publicised visit to the prime minister, Manmohan Singh, was to resist these

proposals. All this has made a poor advertisement for India's corporate climate. According to a seasoned associate of the Ambani family: "If anyone wants to do business in India, he now has to ask himself: 'Will this affect Anil? Or Mukesh? And will they get after me?'"

Some argue that the vagaries of doing business in India, as exemplified by the feud, are even putting off local investors, who have been acquiring foreign companies by the hatful. "Is there also a dark side to the global investment being made by Indian businessmen?" writes T.N. Ninan, editor of the *Business Standard* newspaper. "Are our best businessmen, who prefer an ethical basis to their business conduct, deciding that India is not the basket in which they want to place more of their eggs?"

**Yahoo!**

# Icahn't

Jul 24th 2008 | SAN FRANCISCO
From The Economist print edition

**The frazzled internet portal solves one problem and is left with many others**

A GOOD punch-up was just getting to the bloody stage. Carl Icahn, an activist investor, had taken a stake in Yahoo!, a beleaguered internet company, and was hurling public abuse at Jerry Yang, its boss and co-founder. Yahoo! was throwing invective right back, mocking Mr Icahn's ignorance in matters technical. He has no plan, said Yahoo!, besides selling out to Microsoft. That is what you should have done long ago, retorted Mr Icahn, and started negotiations with Microsoft himself. This "odd-couple collaboration" will "destroy stockholder value," Yahoo! screamed. Mr Icahn stepped up his campaign to fire Mr Yang and the rest of the board at a shareholder meeting on August 1st.

Then, last weekend, a tense truce. Yes, Yahoo!'s shareholders may be livid that Mr Yang did not take Microsoft's offer of $33 a share while it stood (the share price is now below $21). But they also recognised that Mr Icahn really did lack an alternative strategy, and that he had, by saying as much, frittered away any remaining bargaining clout with Microsoft. Bill Miller, a fund manager at Legg Mason, Yahoo!'s second-largest institutional investor, said that Yahoo!'s existing board had shown enough "care and diligence" for him to vote to retain it. Mr Icahn, unable to get the other large investors on his side, had to seek a rapprochement with Mr Yang.

Mr Yang will remain boss for now, as will all the other directors save one, who is resigning voluntarily. In turn, Mr Icahn will join the board, as will two new directors to his liking, raising the board's membership from nine to 11. One of those two appears certain to be Jonathan Miller, who was formerly the boss of AOL, an Internet portal owned by Time Warner, a media giant, and often considered similar to Yahoo!. AOL, as it happens, is the only company that might be a viable alternative to Microsoft as a merger candidate, but whether Mr Miller's presence would help in any such negotiation is questionable, since he was in effect ousted.

All of which leaves Yahoo! in even more of a mess than when Microsoft first offered to buy it, on February 1st. The dribble of top managers and engineers leaving the company has turned into something of a spurt. The worsening economy is likely to hit display (or "banner") advertising, the mainstay of Yahoo!'s business. On July 22nd Yahoo! announced that its quarterly profits had again fallen. This followed Microsoft's announcement a few days earlier that it saw hard times ahead in online advertising. Even Google disappointed Wall Street, although its chief economist claims that search-related advertising—based on the keywords that consumers type into its search engine—will fare better during a downturn than display ads.

Mr Yang seems to put on a brave face no matter what the news. The compromise with Mr Icahn "eliminates the distractions," he says, allowing him to pursue the strategy he formed last year when he returned as chief executive. But there does not seem to have been much of a strategy. Yahoo! has fallen from grace, with advertisers and consumers, because Google first surpassed its technology, and then left it far behind. Mr Yang responded to Microsoft's advances by outsourcing a chunk of Yahoo!'s search-advertising business to Google—a potential fillip to Yahoo!'s bottom line, but a strategic non sequitur. That deal, moreover, would leave Google with so much clout in the online-advertising market that antitrust regulators have taken an intense interest. In other words, plenty of distractions remain.

Renewable energy

# Big blue

Jul 24th 2008
From The Economist print edition

**A clean-power colossus hopes to grow even bigger**

MANY investors believe there is gold in greenery. They see a sunny future for firms that generate power from solar panels, wind turbines and so forth. After all, their fuel is free, whereas the bills of power stations that run on coal and natural gas are high and rising. And ever more countries are making “renewables” even more attractive through subsidies or taxes on grubbier fuels. So what is the world’s biggest listed renewable-power firm, in the vanguard of this trend?

The answer, perhaps surprisingly, is RusHydro, a partly state-owned company that owns most of Russia’s hydroelectric plants. Its capacity, of 25 gigawatts (GW), makes it the largest power-generation firm in Russia, the world’s fourth-biggest market for electricity. (Hydro-Québec, a firm owned by a Canadian provincial government, generates more power but is not listed.)

Hydropower produces about 15% of the world’s electricity, compared with 3% for other renewables. There is still lots of room for growth, anti-dam activists permitting. New Energy Finance, a research firm, reckons that less than one-third of the world’s potential capacity has been developed. Much of the unused part is in Russia, RusHydro says. It has 5GW of new capacity under construction and more than 20GW on the drawing board—enough to double production.

RusHydro’s managers hope the prospect of such growth, along with the global enthusiasm for greenery, will buoy the company’s shares. What is more, says Sergei Yushin, its finance chief, the firm is one of the lowest-cost generators in Russia, and so is poised to take advantage of the gradual deregulation of Russia’s electricity market. Some bankers think it will become a blue-chip stock, as the biggest of the firms created amid the recent break-up and partial privatisation of UES, Russia’s former power monopoly.

But there are reasons for caution. For one thing, Russian politicians might put a brake on deregulation if prices were to rise too fast. The sites of many of RusHydro’s mooted plants are in the eastern wilds of Russia, far from most potential customers. Alexander Korneev, an analyst at Citibank, worries that the firm will squander its earnings by spending too much on new dams. And low reservoirs have led to disappointing output this year—something even the best-run hydropower firms can do little about.

Media

# Not all bad news

Jul 24th 2008
From The Economist print edition

**Newspapers are thriving in many developing countries**

IT MAY not be much consolation to the hard-pressed hacks of the rich world, but in many developing countries the newspaper business is booming. According to figures released in June by the World Association of Newspapers (WAN), an industry body based in Paris, newspaper sales in Brazil increased by some 12% last year. Over the past five years, circulation has gone up by more than 22%. In India, sales rose by 11%, bringing the five-year increase to more than 35%. Pakistan's newspaper market grew by almost as much in the same period. The trend is similar elsewhere in Asia and Latin America.

The demand for news tends to go up as people enter the workforce, earn more money, invest it and so begin to feel that they have more of a stake in their society. Literacy rates also rise in tandem with wealth. For the newly literate, flipping through a newspaper in public is a potent and satisfying symbol of achievement.

Literacy campaigns by the government and NGOs account for much of the increase in sales of Indian newspapers, according to Ashok Dasgupta of the *Hindu*, a big Indian daily based in Chennai. Hiring is brisk, he says, and new papers and magazines are "cropping up every day". Most are small, but the number of big, high-quality national business dailies has risen from four in 2006 to six today. A seventh will appear later this year.

Publishers in India benefit from a long tradition of press freedom. But papers in countries with more meddling governments are also, by and large, doing well. This is especially true of small newspapers. Governments with limited resources are often ill-equipped to monitor a profusion of local and regional newspapers. In Mali, for example, newspapers are popping up "like mushrooms", says Souleymane Kanté, the local manager for World Education, an American NGO that aims to eradicate illiteracy. The Malian government keeps large national publications in line, Mr Kanté says, but local and regional papers have some breathing room.

China's vast oversight apparatus keeps tabs on big and small outlets alike. But newspapers are thriving there, too. In the past five years sales have increased by more than 20% to 107m copies a day. (By comparison, daily sales in America amount to some 50m.) China's growing wealth helps to explain this. So does a high level of literacy, thanks in part to the Communist Party's investment in education.

Shaun Rein, of the China Market Research Group in Shanghai, says there are also other factors at work. Because all Chinese newspapers are state-owned, they will probably remain cheap even as costs increase and advertisers move online. And Beijing's struggle to limit corruption may also play a part. Some officials see local publications as allies in the effort to unmask crooked regional and municipal authorities, and so favour lengthening reporters' leashes. Others seem to disapprove, leading to rumours of a debate within the upper echelons of the party—unreported by Chinese media, of course.

Newspapers are doing well in middle-income countries, too, according to WAN. In Argentina, for example, newspaper circulation jumped more than 7% last year. Manuel Mora y Araujo, of IPSOS, a consultancy, says media groups from America and other rich countries have not been investing in Argentine news organisations, possibly because their own problems mean that they cannot afford to. Nonetheless, he says, "The press isn't worried—there's tons of advertising."

Economist.com BUSINESS

**Eco-friendly packaging**

# Losing their bottle

Jul 24th 2008
From The Economist print edition

**Wine makers experiment with snob-defying packaging**

"THERE is a devil in every berry of the grape," says the Koran. To the environmentally conscious, the wine bottle is not much better. At about 400 grams, a typical glass bottle is around eight times heavier than a plastic one. It therefore takes more energy to transport, and so entails greater emissions of greenhouse gases, which could be reduced by switching to lighter packaging.

Connoisseurs tend to flinch at the notion of drinking wine that comes in a plastic bottle or—heaven forbid—a box. But mass producers have succeeded in trading corks for screw caps, even for some more expensive bottles, without ruffling too many feathers.

New receptacles are now testing the limits of such open-mindedness. Boisset Family Estates, an American importer of French wines, has begun offering French Rabbit—wines which come in a rounded, octagonal one-litre Tetra Pak with a metallic finish. According to Boisset, French Rabbit's carbon footprint is little more than a tenth of that of conventional bottled wines. Over 6m units have been purchased worldwide in the past 18 months, which bodes well for the future of alternative wine packaging.

Arniston Bay, a South African producer, has also begun to eschew the glass bottle, in favour of pouches, which have around one-twentieth of the weight and produce one-fifth of the emissions. Such packaging does not tend to be well received in South Africa, where downmarket *papsaks* (foil bags of wine) were banned because of their purported contribution to alcoholism and associated social ills. But Arniston Bay's pouch is the subject of a marketing blitz in Britain.

Francis Ford Coppola, a film director turned winemaker, is also a packaging pioneer, although for marketing rather than environmental purposes. His Sofia Mini Blanc de Blancs, a sparkling wine which "bursts with rich pear, honeysuckle and exotic passion-fruit aromas", comes in a shiny red aluminium can that will have purists running for the hills.

Not surprisingly, there is no sign of change at the high end of the market. David Berry Green, whose family has helped to run Berry Bros & Rudd, a grand wine merchant, for eight generations, admits that many of his customers are unlikely to accept anything other than a traditional bottle sealed with a cork. It may take a generation or two more before the family that served the exiled Napoleon III sells its grandest vintages in aluminium cans with straws included, like the Sofia Mini.

**Face value**

# Buy out and pay up

Jul 24th 2008
From The Economist print edition

**Dominique Senequier of AXA Private Equity thinks her industry should be more generous**

Landov

IN THE late 1980s a generation of French winemakers was preparing to hand over its vines. Many families, lacking a successor, wanted to sell. Dominique Senequier, then at GAN, an insurance firm, saw her chance. She bought two Bordeaux estates: Chateau Kirwan, whose wines had particularly impressed Thomas Jefferson when he visited in the 18th century, and Chateau Clinet. It was a pleasurable start to a career in private equity, and a lucky one: Ms Senequier met Claude Bébéar, then chief executive of AXA, another insurer, who was also buying vineyards. In 1996 he picked her to start a private-equity business.

Twelve years later, with $25 billion under management, AXA Private Equity claims to be the biggest private-equity firm in Europe and the tenth largest in the world. Few people thought an insurance company could build a successful private-equity arm—most got out of the business when AXA was getting in. At first it was hard going. Mr Bébéar insisted that Ms Senequier raise funds from outside (only a third of AXA Private Equity's funds come from its parent), so she went to America, cap in hand. She recalls, "Some investors said, 'Why should we invest in France, which is full of communists and unions, when we can buy Californian venture capital?'" The solution, Ms Senequier discovered, was to expand beyond France; once the firm promised to invest in Germany as well, money came in.

AXA Private Equity is now the only French private-equity fund with true international reach. It invests in small and medium-sized firms in France, Germany and Italy by itself, and in large companies around the world with partners such as Kohlberg Kravis Roberts (KKR) and TPG, two giant American buy-out firms. And it has a fund-of-funds business, which invests in other private-equity firms. "Dominique Senequier considers herself to be an international player in private equity, not only a French player," says Eddie Misrahi of Apax Partners in Paris. "She can pick up the phone to Schwarzman, Kravis or Bonderman whenever she wants, and they take her call," says a colleague.

Ms Senequier now wants to shape the future of her industry. She believes passionately that private equity offers a better, longer-term source of funding for companies than public markets, which she dismisses as "a lottery". But private equity needs to be accepted by governments and the public if it is to help European companies grow and prosper, she says. She thinks the industry should rename itself "long-term equity". She has also suggested an amendment to France's labour code to oblige private-equity firms to distribute 5% of the capital gains from firms they sell among all the employees.

"At the moment the debate about private equity is on the split of rewards between shareholders and top management," says Ms Senequier. "I want to open a discussion about the split between top management and the rest of the employees." The idea is not all that revolutionary, she says: when AXA Private Equity

sold Camaïeu, a French clothing company, last year, for instance, it paid the employees a bonus of a month's salary, and other French buy-out firms have made similar payments.

Most private-equity executives, of course, object to the idea of giving money away. Such handouts, they say, might expose them to legal action from their own investors. AFIC, the French private-equity association, was especially furious about Ms Senequier's proposal, not least because she didn't bother to consult it before sharing her thoughts with politicians. "She got the entire industry against her," says one private-equity executive. Some of her rivals reckon that she may be positioning herself for a second career, in politics. Recently Ms Senequier appeared to back down slightly by calling for a voluntary, Europe-wide code of conduct to encourage profit-sharing, rather than a law. That is more in line with AFIC's stance.

But some private-equity executives admit that Ms Senequier's idea is politically shrewd. The industry is attracting hostile scrutiny from politicians on both sides of the Atlantic, and its trade bodies are working hard to fend off potentially harsh new regulation. Private equity is less resented in France than in Britain, Germany or America, but several recent deals have prompted criticism. In June Barclays Private Equity agreed to sell Converteam, a power-conversion firm it had bought for €150m ($177m at the time), for €1.9 billion, resulting in a huge gain for itself, a payment of €700m to Converteam's top eight managers—and widespread resentment among French politicians.

## Hitting the right note

Ms Senequier is an accomplished pianist. She loves opera, and works from elaborately gilded and frescoed 18th-century rooms in the Place Vendôme, which resemble a stage set rather than a corporate headquarters. But her refined tastes and her willingness to share private-equity's profits are not signs of softheartedness, her colleagues caution. Some years ago, AXA Private Equity's funds of funds and its secondary business, which buys portfolios of private equity investments, threatened to outgrow its direct investments, which are Ms Senequier's first love. There was even talk that AXA might spin off the direct business. But Ms Senequier doggedly defended the traditional business, and prevailed. "She is a formidable woman who is not afraid to take tough decisions," says a Paris-based banker.

For AXA Private Equity, as for its rivals, life will be harder now that the credit crisis has sapped the supply of cheap loans. But with shares falling, says Ms Senequier, there are also more opportunities to buy. For deals worth up to €250m financing is still readily available, says another French private-equity executive. But the industry will have to rely less on cheap debt and financial engineering and more on improved management of the firms it buys—meaning greater upheaval for employees. If so, her ideas about the ethics of private equity will be even more relevant.

**Neuroeconomics**

# Do economists need brains?

Jul 24th 2008 | NEW YORK
From The Economist print edition

**A new school of economists is controversially turning to neuroscience to improve the dismal science**

FOR all the undoubted wit of their neuroscience-inspired concept album, "Heavy Mental"—songs include "Mind-Body Problem" and "All in a Nut"—The Amygdaloids are unlikely to loom large in the annals of rock and roll. Yet when the history of economics is finally written, Joseph LeDoux, the New York band's singer-guitarist, may deserve at least a footnote. In 1996 Mr LeDoux, who by day is a professor of neuroscience at New York University, published a book, "The Emotional Brain: The Mysterious Underpinnings of Emotional Life", that helped to inspire what is today one of the liveliest and most controversial areas of economic research: neuroeconomics.

Illustration by Otto

In the late 1990s a generation of academic economists had their eyes opened by Mr LeDoux's and other accounts of how studies of the brain using recently developed techniques such as magnetic resonance imaging (MRI) showed that different bits of the old grey matter are associated with different sorts of emotional and decision-making activity. The amygdalas are an example. Neuroscientists have shown that these almond-shaped clusters of neurons deep inside the medial temporal lobes play a key role in the formation of emotional responses such as fear.

These new neuroeconomists saw that it might be possible to move economics away from its simplified model of rational, self-interested, utility-maximising decision-making. Instead of hypothesising about *Homo economicus*, they could base their research on what actually goes on inside the head of *Homo sapiens*.

The dismal science had already been edging in that direction thanks to behavioural economics. Since the 1980s researchers in this branch of the discipline had used insights from psychology to develop more "realistic" models of individual decision-making, in which people often did things that were not in their

best interests. But neuroeconomics had the potential, some believed, to go further and to embed economics in the chemical processes taking place in the brain.

Early successes for neuroeconomists came from using neuroscience to shed light on some of the apparent flaws in *H. economicus* noted by the behaviouralists. One much-cited example is the “ultimatum game”, in which one player proposes a division of a sum of money between himself and a second player. The other player must either accept or reject the offer. If he rejects it, neither gets a penny.

According to standard economic theory, as long as the first player offers the second any money at all, his proposal will be accepted, because the second player prefers something to nothing. In experiments, however, behavioural economists found that the second player often turned down low offers—perhaps, they suggested, to punish the first player for proposing an unfair split.

Neuroeconomists have tried to explain this seemingly irrational behaviour by using an “active MRI”. In MRIs used in medicine the patient simply lies still during the procedure; in active MRIs, participants are expected to answer economic questions while blood flows in the brain are scrutinised to see where activity is going on while decisions are made. They found that rejecting a low offer in the ultimatum game tended to be associated with high levels of activity in the dorsal stratium, a part of the brain that neuroscience suggests is involved in reward and punishment decisions, providing some support to the behavioural theories.

As well as the ultimatum game, neuroeconomists have focused on such issues as people’s reasons for trusting one another, apparently irrational risk-taking, the relative valuation of short- and long-term costs and benefits, altruistic or charitable behaviour, and addiction. Releases of dopamine, the brain’s pleasure chemical, may indicate economic utility or value, they say. There is also growing interest in new evidence from neuroscience that tentatively suggests that two conditions of the brain compete in decision-making: a cold, objective state and a hot, emotional state in which the ability to make sensible trade-offs disappears. The potential interactions between these two brain states are ideal subjects for economic modelling.

Illustration by Otto

Already, neuroeconomics is giving many economists a dopamine rush. For example, Colin Camerer of the California Institute of Technology, a leading centre of research in neuroeconomics, believes that incorporating insights from neuroscience could transform economics, by providing a much better understanding of everything from people’s reactions to advertising to decisions to go on strike.

At the same time, Mr Camerer thinks economics has the potential to improve neuroscience, for instance by introducing neuroscientists to sophisticated game theory. “The neuroscientist’s idea of a game is rock, paper, scissors, which is zero-sum, whereas economists have focused on strategic games that produce gains through collaboration.” Herbert Gintis of the Sante Fe Institute has even higher hopes that breakthroughs in neuroscience will help bring about the integration of all the behavioural sciences—economics, psychology, anthropology, sociology, political science and biology relating to human and animal behaviour—around a common, brain-based model of how people take decisions.

## Mindless criticism

However, not everyone is convinced. The fiercest attack on neuroeconomics, and indeed behavioural economics, has come from two economists at Princeton University, Faruk Gul and Wolfgang Pesendorfer. In an article in 2005, “The Case for Mindless Economics”, they argued that neuroscience could not transform economics because what goes on inside the brain is irrelevant to the discipline. What matters are the decisions people take—in the jargon, their “revealed preferences”—not the process by which they reach them. For the purposes of understanding how society copes with the consequences of those decisions, the assumption of rational utility-maximisation works just fine.

But today’s neuroeconomists are not the first dismal scientists to dream of peering inside the human brain. In 1881, a few years after William Jevons argued that the functioning of the brain’s black box would not be known, Francis Edgeworth proposed the creation of a “hedonimeter”, which would measure the

utility that each individual gained from his decisions. “From moment to moment the hedonimeter varies; the delicate index now flickering with the flutter of the passions, now steadied by intellectual activity, low sunk whole hours in the neighbourhood of zero, or momentarily springing up towards infinity,” he wrote, poetically for an economist.

This is “equivalent to neuroeconomics’ brain scan,” notes David Colander, an economist at Middlebury College in Vermont, in an article last year in the *Journal of Economic Perspectives*, “Edgeworth’s Hedonimeter and the Quest to Measure Utility”. Later economists such as Irving Fisher, Frank Ramsey (who proposed a utility-measuring machine called a “psychogalvanometer”) and Friedrich von Hayek would discuss the role of the complex inner workings of the brain. Hayek cited early advances in neuroscience to explain why each individual has a unique perspective on the world.

The reason why economists in the late 19th century and much of the 20th put the rational utility-maximising individual at the heart of their models was not that they thought that economics should avoid looking into the brain, but because they lacked the technical means to do so, says Mr Colander. “Economics became a deductive science because we didn’t have the tools to gather information inductively. Now, better statistical tools and neuroscience are opening up the possibility that economics can become an abductive science that combines elements of deductive and inductive reasoning.”

The big question now is whether the tools of neuroscience will allow economics to fulfil Edgeworth’s vision—or, if that is too much to ask, at least to be grounded in the physical reality of the brain. Studies in the first decade of neuroeconomics relied heavily on active MRI scans. Economists’ initial excitement at being able to enliven their seminars with pictures of parts of the brain lighting up in response to different experiments (so much more interesting than the usual equations) has led to a recognition of the limits of MRIs. “Curiosity about neuroscience among economists has outstripped what we have to say, for now,” admits Mr Camerer.

A standard MRI identifies activity in too large a section of the brain to support much more than loose correlations. “Blood flow is an indirect measure of what goes on in the head, a blunt instrument,” concedes Kevin McCabe, a neuroeconomist at George Mason University. Increasingly, neuroscientists are looking for clearer answers by analysing individual neurons, which is possible only with invasive techniques—such as sticking a needle into the brain. For economists, this “involves risks that clearly outweigh the benefits,” admits Mr McCabe. Most invasive brain research is carried out on rats and monkeys which, though they have similar dopamine-based incentive systems, lack the decision-making sophistication of most humans.

One new technique being used by some neuroeconomists is transcranial magnetic stimulation, in which a coil held next to the head issues a low-level magnetic pulse that temporarily disrupts activity in a certain part of the brain, to see if that changes the subject’s preferences—for example, for a particular food and how much he is willing to pay for it. However, this tool, too, has only limited applicability, as it cannot get at the central temporal node of the brain where much basic reward activity takes place.

Still, Mr Camerer is confident that neuroeconomics will deliver its first big breakthroughs within five years. Likewise, Mr McCabe sees growing sophistication in neuroeconomic research. For the past four years, a group of leading neuroeconomists and neuroscientists has met to refine questions about the brain and economic behaviour. Researchers trained in both neuroscience and economics are entering the field. They are asking more sophisticated questions than the first generation “spots on brains” experiments, says Mr McCabe, such as “how these spots would change with different economic variables.” He expects that within a few years neuroeconomics will have uncovered enough about the interactions between what goes on in people’s brains and the outside world to start to shape the public-policy agenda—though it is too early to say how.

The success of neuroeconomics need not mean that behavioural economics will inevitably triumph over an economics based on rationality. Indeed, many behavioural economists are extremely pessimistic about the chances that brain studies will deliver any useful insights, points out Mr Camerer with regret.

However, Daniel Kahneman, a Princeton University psychologist who in 2002 won the Nobel prize in economics for his contribution to behavioural economics, is an enthusiastic supporter of the new field. “In many areas of economics, it will dominate, because it works,” says Mr Kahneman.

Even so, “we are nowhere near the demise of traditional neoclassical economics,” he argues. Instead, insights from brain studies may enable orthodox economists to develop a richer definition of rationality. “These traditional economists may be more impressed by brain evidence than evidence from psychology,” he says; “when you talk about biology either in an evolutionary or physical sense, you feel they have

greater comfort levels than when you start to talk about psychology."

In this respect, Mr Kahneman's Princeton colleagues and neuroscience-bashers may be making a mistake in bundling behavioural economics—soft mind science—and neuroeconomics—hard biology—together. "It is far easier to argue for mindless economics than for brainless economics," he says.

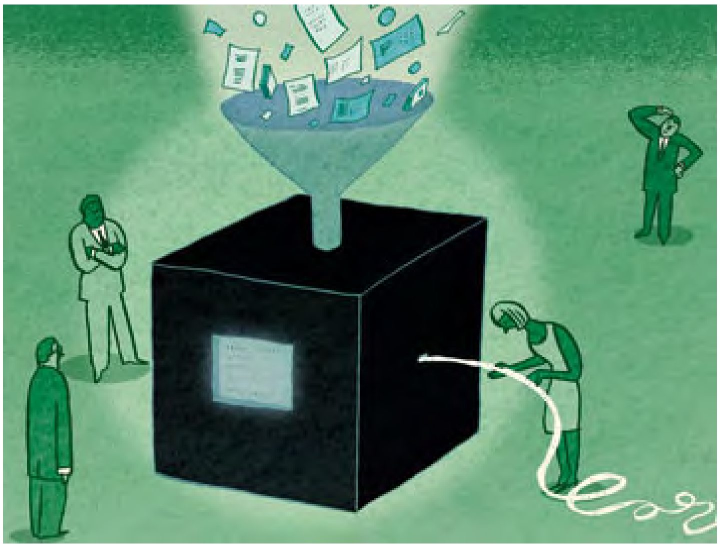
**Insurance**

# Black box blues

Jul 24th 2008
From The Economist print edition

**Investors still struggle to understand Europe's insurers**

Illustration by Satoshi Kambayashi



AFTER watching bank shares drop by almost a third this year, most European investors probably consider the idea of buying insurance stocks a sick joke. Banks' balance-sheets may be difficult to understand but insurers can be mind-bogglingly complex too.

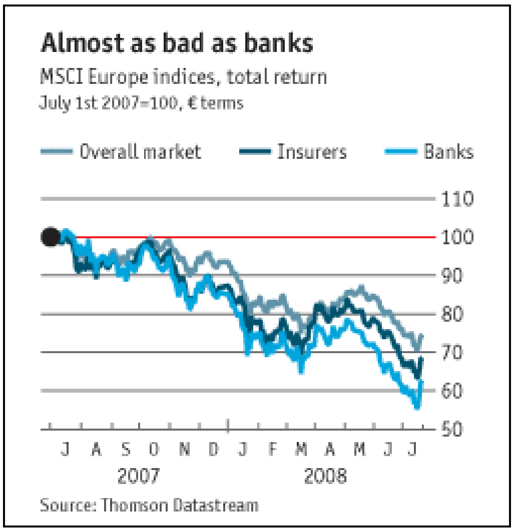
Insurers also have a track record of fouling up when the economic environment worsens. In the last downturn in 2002 they got things badly wrong. The big European life insurers owned far too many equities. When stockmarkets fell, their capital positions were whacked, forcing many to issue new shares. "Once bitten, twice shy" is the market's motto today. The share prices of Europe's insurers have dropped by almost a quarter this year and trade on the lowest multiple of earnings of any sector, battered banks included. Is that fair?

Insurance companies are certainly not immune to economic slowdown. People buy fewer equity-linked savings products in difficult times, for example. But concerns about what lurked on insurers' balance-sheets have probably been overdone. Most of the big companies will report results over the next few weeks. So far the damage from the credit crunch has been limited: the days when insurance companies could be relied on to be the dumbest guys in the room seem to be over.

Admittedly, America's AIG got into serious trouble after expanding into the business of insuring mortgage bonds, but Swiss Re was the only other company to dabble in this dangerous niche. By and large only those insurers which own banks, like Germany's Allianz and ING of the Netherlands, have revealed big exposures to the toxic end of the credit spectrum. And the industry's disclosure about such assets has tended to be far superior to that of the banks. ING's last quarterly report was 96 pages long, with a 190-page statistical supplement chucked in for fun.

Indeed, if the sector has a secret it may be a pleasant one. Most industry executives and specialists think it has been transformed for the better since its near-death experience in 2002. Equities now make up only 10% of the invested assets of Europe's ten biggest insurance firms; the rest is largely in government and high-quality corporate bonds. Andy Rear of Oliver Wyman, a consultancy, says risk management has improved dramatically. Capital positions have been rebuilt.

Why then are investors so sceptical? Andrew Crean, an analyst at Citigroup, thinks that weird accounting is partly to blame. Investors have two options to choose from when dissecting the books, neither of them good. International Financial Reporting Standards (IFRS) try to smooth the immediate costs of writing new business across several years. Unfortunately, earnings are still a bad proxy for the cashflow available to shareholders. Worse, IFRS are inconsistently applied across Europe. Standard setters hope to reach a definitive set of rules only by 2011.




The alternative is the industry's home-grown accounting standard, which is called Embedded Value (EV). A life company's EV represents its shareholders' funds plus the value of future profits it expects to generate from its existing book of business, after adjusting for risk. This is a concept most investors can get their heads around. But individual companies can pick their own assumptions on things like investment returns. Furthermore, diversified firms often report EV only for their life divisions, making it harder still to compare companies on a consistent basis. The result is that many investors view EV as just another type of black-box reporting.

The good news is that the industry is taking note. In June, a forum of Europe's biggest insurers agreed to implement new Market Consistent Embedded Value (MCEV) rules in 2009. These require companies to make uniform assumptions about investment returns and apply the reporting standard across the entire company. In addition it will no longer be possible to book at once the profit expected from holding risky assets. Mr Crean argues that MCEV standards make it easier to see how much cash is being generated by the "back book" of existing business and how much of this is being reinvested in new business, rather than being handed to shareholders as dividends.

Have insurers found their holy grail: a language that makes them comprehensible to outsiders? MCEV certainly represents progress, but most generalist investors will still feel like an Italian being spoken to in Spanish rather than Cantonese. The only way to double-check the calculations will be to pay an expert to do it. Bruno Paulson, an analyst at Sanford Bernstein, points out that measurement of critical non-market risks, such as how long customers will keep their policies, is inevitably still pretty crude and largely up to the companies themselves. And MCEV has no direct link to capital adequacy. The introduction of new solvency rules by 2012 should change this, but until then those keen to know how far markets would have to fall before insurers had to raise new capital are still partly in the dark.

Accounting reforms will help but insurance companies are inherently complex. Ultimately they will have to earn investors' confidence by performing consistently through this market downturn. And if more light can be let into these financial black boxes, they may be viewed a bit more generously.

Buttonwood

# A time for pruning

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From The Economist print edition

**Signs that the hedge-fund industry is growing more slowly**

Illustration by Satoshi Kambayashi

HEDGE funds had a brilliant first half of 2008, outperforming Wall Street by 12 percentage points. Hedge funds had an awful six months, producing their worst return on record.

Depending on your point of view, the same statistics can be used to support both those statements. And the dichotomy shows how confused the image of the industry has become.

One leftish British columnist recently described how he believed that hedge funds work. “They set out to make a return of 30% a year any way they can in no-holds-barred, hyper-aggressive financial gambling,” he wrote. By his standards, the average fund’s loss of 0.75% in the first six months of the year, according to Hedge Fund Research, was a dismal failure.

But this is not how most hedge funds operate any more. Gone are the days when their main client base was wealthy individuals. Now hedge funds are trying to market themselves to pension funds and endowments. What those clients want is a controlled balance between risk and reward, and a return that is not correlated with conventional stockmarkets. Given that the S&P 500 index lost 12.8% over the first half, hedge-fund managers kept that promise.

In truth, any attempt to analyse the hedge-fund industry as a whole runs into the problem that it is not an asset class but a style of fund management. Hedge Fund Research produces figures for 18 different sectors, from “short bias” (funds that make money from falling share prices) to “merger arbitrage” (funds that exploit movements in bidders’ and sellers’ share prices). In any given period there are likely to be wide divergences between the returns of the different strategies; the best sector in the first half beat the worst by more than 20 percentage points.

As a result, risk has a lot of different potential meanings for hedge-fund investors. They could opt for a strategy that is out of favour. They could choose a manager on the basis of a track record that has been driven by luck or by the excessive use of borrowed money. At the extreme, they could pick a manager who has relied on fraud.

That helps explain two trends in the industry. The first is concentration: the assets of the 100 largest funds rose from 47% of the industry in 2002 to 66% in 2007, according to GAM, an asset manager. Just as no-one used to get fired for buying IBM computers, no one can be blamed for picking funds run by big managers such as Highbridge or D.E. Shaw.

The second is a reliance on funds-of-funds. It takes an awful lot of due diligence to assess a hedge-fund manager; pension funds and endowments may well feel it is better left to an expert. In the first quarter of the year, the number of individual hedge funds in existence fell slightly (from 7,634 to 7,601); more funds gave up the ghost than were created. But a net 110 funds-of-funds came into existence.

The problem for clients is that the expertise of a fund-of-funds manager requires an extra layer of fees. Those costs turned the net return of a fund-of-funds investor into a loss of 2.3% in the first half. For most institutional clients that use the hedge-fund industry, the real risk is not that they will lose their shirts. It is that the combination of high fees and diversified portfolios will result in mediocre returns.

Clients may slowly be waking up to that reality. Even though the average hedge fund easily beat equities, the flow of money into the sector in the first half of the year was just $29 billion, down from $118 billion in the first six months of 2007.

The headlong growth of the industry, which took it from $39 billion of assets in 1990 to more than $1.9 trillion at the end of June, may be over for a year or two. This is not just down to a lack of enthusiasm among clients. In such difficult markets, traders are less likely to desert the haven of an investment bank for the hard slog of starting their own fund. And the credit crunch means banks are less willing to give hedge funds the kind of leverage they need to create double-digit returns.

Strikingly, the only sector that really drew in the punters in the first half of the year was “global macro”. Such funds take the kind of big bets on currencies and markets that made the names of George Soros and Julian Robertson. Having dominated the industry in the 1980s and the 1990s, global macro funds fell out of favour towards the tail of the dotcom boom. They are now only a small part of the industry.

Astute global macro managers had two great trends to follow in the first half of 2008, betting in favour of commodities and against financials. By and large, they got those trends right. Ironically, the managers thought to be the riskiest have proved to be the best hedges this year.

**Japan's pension pot**

# Capital thinking

Jul 24th 2008 | TOKYO
From The Economist print edition

**A call to set up a sovereign-wealth fund**

AFP

**Old kids on the block**

PENSIONERS in Japan cannot help getting older, but could they be richer? The country's vast public-pension fund, to which every citizen must contribute, is poorly managed. Last year it lost money (¥5.65 trillion, around $47 billion). Reform may now be on the way, perhaps with big implications for the Tokyo market.

The fund is the world's largest publicly invested pension pot, with ¥150 trillion of assets. But the capital is mostly stagnant. Around two-thirds is parked in Japanese government bonds (JGBs), whose ten-year yield hovers at a modest 1.6%. Bureaucrats with little investment nous are in charge. Returns are low, at some 3.5% annually, compared with around 7% for public pension funds in Norway and Sweden, and 10% in Canada and France. Pension money was squandered in the past on things like building holiday resorts in preposterous but politically important places.

Without better returns, the government will have to reduce its support for the old or raise taxes; neither will be popular. To improve the fund's performance, a group of politicians from the ruling Liberal Democratic Party (LDP) has called for a sliver of the pension purse, ¥10 trillion, to be set aside to create a sovereign-wealth fund. It would be run by professional managers, not necessarily from Japan, rewarded with performance-based salaries. The fund would be independent of bureaucratic and political meddling. Its working language would be English.

Previous efforts to reform the pension fund have been quashed by Japan's Jurassic bureaucracy, as was an earlier attempt to create a sovereign-wealth fund using foreign-exchange reserves. Risky investments put the public's money in peril, say detractors. To overcome this resistance, the proposed fund would maintain the same allocation to JGBs as the current one. If it can produce better returns from the portion of its capital that is actively invested, it may sway public opinion in favour of increasing its size and changing its allocation away from safe-but-sorrowful JGBs, explains Kotaro Tamura, an LDP legislator. The plan is a Petri dish for a potentially much bigger investment pool.

Any long-term shift away from JGBs may have broader fiscal consequences. The government's debt is around 180% of GDP, the largest among industrialised countries. But it borrows cheaply, partly because the pension fund is a captive buyer. If the fund were to seek more enticing assets elsewhere, the government would have to offer better terms on its bonds, raising its cost of borrowing.

Some officials fear this would harm the national economy. But the true consequences would probably be more subtle. Pensioners would be better off, possibly at the expense of future taxpayers, who would bear the burden of repaying the government's more costly debt.

There may be wider gains. The plan's backers hope that fresh funds and cannier investment will give the Tokyo stockmarket a lift, by putting pressure on companies to improve shareholder value. Better performance may also inspire individuals to invest more creatively. Japanese households sit on ¥1,500 trillion of assets, half of which is buried in bank deposits earning scant interest. Unleashing that capital would really help to cushion old age.

Credit cards

# Superprime slime

Jul 24th 2008 | NEW YORK
From The Economist print edition

**American Express reveals unexpectedly weak results**

AFTER the subprime crisis, a superprime one? That depressing scenario looks plausible given the unexpectedly weak second-quarter profits from American Express, America's fourth-largest card issuer and the one most geared towards well-heeled consumers. June was particularly ugly: "roll rates"—the number of customers falling from current to 30 days delinquent, or from 30 to 60 days—jumped sharply. Amex's charge-offs of debt deemed unrecoverable have climbed in a few months from unusually low levels to well above the historic average of 4.8% of balances outstanding. It has scrapped its earnings forecast.

Amex's problems stem in part from a familiar source: an aggressive move out of its traditional business of charge cards, which must be paid off each month, into riskier credit cards that allow customers to carry a balance. As the credit boom reached its peak, the firm's credit-card business was growing by a dizzying 20% or more a year, with younger consumers with scant track records among the targets. "Outsized growth came at a price in terms of credit quality," says Richard Hofmann of CreditSights, a research firm.

But broader forces are at work. With property prices tumbling, unemployment rising and consumer confidence at a 16-year low, even "longer term, superprime card members" are feeling the pinch, Kenneth Chenault, Amex's boss, told analysts this week. They are spending less on discretionary items, and many are struggling to keep their balances down—even, ominously, if they have gleaming credit scores.

If this trend worsens, losses could mount at an accelerating rate. That is because customers with better credit scores get disproportionately larger credit limits, points out David Robertson of the Nilson Report, which tracks the industry. A risky customer might be given $2,000, a slightly sounder one ten times that. Big losses would be particularly painful for big banks, which have come to rely heavily on card revenue to offset capital-markets losses. Some 79% of Citigroup's profit last year came from cards.

Issuers are reacting by slowing acquisition of new customers and tightening credit lines to many existing ones. Mr Chenault has promised to be "very, very surgical" in dealing with cardholders Amex deems risky. But the only card firms that look safe are the pure payment processors, who do not have to worry about mounting bad debts. MasterCard's share price has risen by 62% in the past year. Amex's is down by 39%.

**The Big Mac Index**

# Sandwiched

Jul 24th 2008
From The Economist print edition

**Burgernomics says currencies are very dear in Europe but very cheap in Asia**

EVER since the credit storms first broke last August, the prices of stocks, bonds, gold and other investment assets have been blown this way and that. Currencies have been pushed around too. Did this buffeting bring them any closer to their underlying fair value? Not according to the Big Mac Index, our lighthearted guide to exchange rates. Many currencies look more out of whack than in July 2007, when we last compared burger prices.

The Big Mac Index is based on the theory of purchasing-power parity (PPP), which says that exchange rates should move to make the price of a basket of goods the same in each country. Our basket contains just a single item, a Big Mac hamburger, but one that is sold around the world. The exchange rate that leaves a Big Mac costing the same in dollars everywhere is our fair-value yardstick.

Only a handful of currencies are close to their Big Mac PPP. Of the seven currencies that make up the Federal Reserve's major-currency index, only one (the Australian dollar) is within 10% of its fair value. Most of the rest look expensive. The euro is overvalued by a massive 50%. The British pound, Swedish krona, Swiss franc and Canadian dollar are also trading well above their burger benchmark. All are more overvalued against the dollar than a year ago. Only the Japanese yen, undervalued by 27%, could be considered a snip.

The dollar still buys a lot of burger in the rest of Asia too. The Singapore dollar is undervalued by 18% and the South Korean won by 12%. The currencies of less well-off Asian countries, such as Indonesia, Malaysia and Thailand, look even cheaper. China's currency is among the most undervalued, though a bit less so than a year ago.

The angrier type of China-basher might conclude that the yuan should revalue so that it is much closer to its burger standard. But care needs to be taken when drawing hard conclusions from fast-food prices. PPP measures show where currencies should end up in the long run. Prices vary with local costs, such as rents and wages, which are lower in poor countries, as well as with the price of ingredients that trade across borders. For this reason, PPP is a more reliable comparison for the currencies of economies with similar levels of income.

For all these caveats, more sophisticated analyses come to broadly similar conclusions to our own. John Lipsky, number two at the IMF, said this week that the euro is above the fund's medium-term valuation benchmark. China's currency is "substantially undervalued" in the IMF's view. The dollar is sandwiched in between. The big drop in the greenback's value since 2002 has left it "close to its medium-term equilibrium level," said Mr Lipsky.

If that judgment is right, the squalls stirred up by the credit crises have moved at least one currency—the world's reserve money—closer to fair value. Curiously the crunch has not shaken faith in two currencies favoured by yield-hungry investors: the Brazilian real and Turkish lira. These two stand out as emerging-market currencies that trade well above their Big Mac PPPs. Both countries have high interest rates. Turkey's central bank recently raised its benchmark rate to 16.75%; Brazil's pushed its key rate up to 13% on July 23rd. These rates offer juicy returns for those willing to bear the risks. Those searching for a value meal should look elsewhere.

## The McCurrency menu

The hamburger standard

| | Big Mac prices In local currency | Big Mac prices in dollars* | Implied PPP† of the dollar | actual exchange rate | Under (-)/ over(+) valuation against dollar |
|---|---|---|---|---|---|
| United States‡ | $3.57 | 3.57 | – | – | |
| Argentina | Peso 11.0 | 3.64 | 3.08 | 3.02 | +2 |
| Australia | A$3.45 | 3.36 | 0.97 | 1.03 | -6 |
| Brazil | Real 7.50 | 4.73 | 2.10 | 1.58 | +33 |
| Britain | £2.29 | 4.57 | 1.56§ | 2.00 | +28 |
| Canada | C$4.09 | 4.08 | 1.15 | 1.00 | +14 |
| Chile | Peso 1,550 | 3.13 | 434 | 494 | -12 |
| China | Yuan 12.5 | 1.83 | 3.50 | 6.83 | -49 |
| Czech Republic | Koruna 66.1 | 4.56 | 18.5 | 14.5 | +28 |
| Denmark | DK28.0 | 5.95 | 7.84 | 4.70 | +67 |
| Egypt | Pound 13.0 | 2.45 | 3.64 | 5.31 | -31 |
| Euro Area** | €3.37 | 5.34 | 1.06†† | 1.59 | +50 |
| Hong Kong | HK$13.3 | 1.71 | 3.73 | 7.80 | -52 |
| Hungary | Forint 670 | 4.64 | 187.7 | 144.3 | +30 |
| Indonesia | Rupiah 18,700 | 2.04 | 5,238 | 9,152 | -43 |
| Japan | Yen 280 | 2.62 | 78.4 | 106.8 | -27 |
| Malaysia | Ringgit 5.50 | 1.70 | 1.54 | 3.2 | -52 |
| Mexico | Peso 32.0 | 3.15 | 8.96 | 10.2 | -12 |
| New Zealand | NZ$4.90 | 3.72 | 1.37 | 1.32 | +4 |
| Norway | Kroner 40.0 | 7.88 | 11.2 | 5.08 | +121 |
| Poland | Zloty 7.00 | 3.45 | 1.96 | 2.03 | -3 |
| Russia | Rouble 59.0 | 2.54 | 16.5 | 23.2 | -29 |
| Saudi Arabia | Riyal 10.0 | 2.67 | 2.80 | 3.75 | -25 |
| Singapore | S$3.95 | 2.92 | 1.11 | 1.35 | -18 |
| South Africa | Rand 16.9 | 2.24 | 4.75 | 7.56 | -37 |
| South Korea | Won 3,200 | 3.14 | 896 | 1,018 | -12 |
| Sweden | SKr38.0 | 6.37 | 10.6 | 5.96 | +79 |
| Switzerland | SFr6.50 | 6.36 | 1.82 | 1.02 | +78 |
| Taiwan | NT$75.0 | 2.47 | 21.0 | 30.4 | -31 |
| Thailand | Baht 62.0 | 1.86 | 17.4 | 33.4 | -48 |
| Turkey | lire 5.15 | 4.32 | 1.44 | 1.19 | +21 |
| UAE | Dirhams 10.00 | 2.72 | 2.80 | 3.67 | -24 |
| Colombia | Peso 7,000 | 3.89 | 1,960 | 1,798 | +9 |
| Costa Rica | Colones 1,800 | 3.27 | 504 | 551 | -8 |
| Estonia | Kroon 32.0 | 3.22 | 8.96 | 9.93 | -10 |
| Iceland | Kronur 469 | 5.97 | 131 | 78.6 | +67 |
| Latvia | Lats 1.55 | 3.50 | 0.43 | 0.44 | -2 |
| Lithuania | Litas 6.90 | 3.17 | 1.93 | 2.18 | -11 |
| Pakistan | Rupee 140 | 1.97 | 39.2 | 70.9 | -45 |
| Peru | New Sol 9.50 | 3.20 | 2.66 | 2.9 | -10 |
| Philippines | Peso 87.0 | 1.96 | 24.4 | 44.5 | -45 |
| Slovakia | Koruna 77.0 | 4.03 | 21.6 | 19.1 | +13 |
| Sri Lanka | Rupee 210 | 1.89 | 58.8 | 111 | -47 |
| Ukraine | Hryvnia 11.0 | 2.19 | 3.08 | 5.03 | -39 |
| Uruguay | Peso 61.0 | 2.55 | 17.1 | 23.9 | -29 |

*At current exchange rates
†Purchasing-power parity; local price divided by price in the United States
‡Average of New York, Chicago, Atlanta and San Francisco §Dollars per pound
**Weighted average of prices in euro area ††Dollars per euro

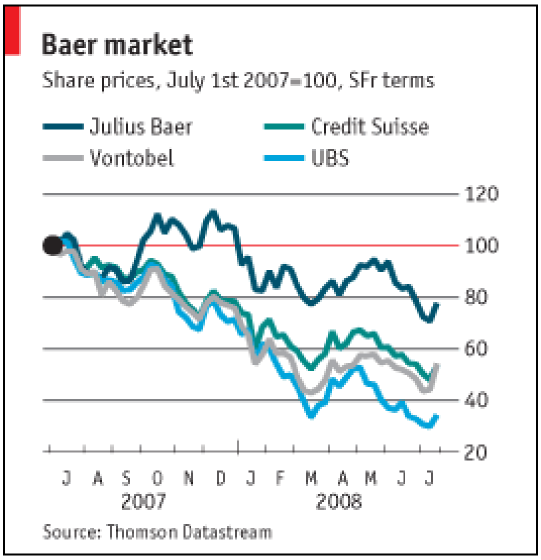
Sources: McDonald's; *The Economist*

**Bank secrecy**

# Hear no evil

Jul 24th 2008 | ZURICH
From The Economist print edition

**Is the Swiss model of private banking in danger?**




THIS is the opportunity of a lifetime to hire more private bankers, says Alex Widmer, chief executive of Bank Julius Baer, part of Switzerland's third-biggest banking group. Baer added 49 bankers to its ranks in the first six months of the year, most of them snatched from UBS and Credit Suisse, its bigger, credit-crunched rivals. It plans to add as many as 60 more this year. Sarasin & Cie, another Swiss bank, is on a similar hiring spree.

Such expansionism may look rather brave, given recent attacks from American and German tax authorities on private-banking practices. On July 17th a Senate subcommittee raked through allegations that two particular banks, LGT Bank of Liechtenstein and UBS, had helped wealthy Americans to evade taxes. A contrite UBS witness said that since November the bank had stopped sending its private bankers from Switzerland to America to advise American taxpayers. The risk of their infringing regulations on what they may or may not sell was judged too great. "I hope that other Swiss banks will take notice," said the committee's chairman.

They may well. The bigger Swiss banks have the option of serving their clients onshore: UBS has more than 32,000 employees in America. For other Swiss banks it is possible and legal to deal with American taxpayers as a "qualified intermediary", but the rules are complex. Baer gave up the struggle in 2005 and sold its American operation—to UBS.

But the model of Swiss banking secrecy—Mr Widmer calls it "client confidentiality"—still has plenty of life in it. Since July 2005, Swiss banks have levied tax on behalf of European Union governments on interest-related income earned by their countries' taxpayers with accounts held in Switzerland. But the revenue is puny, around SFr500m ($480m) so far, and the directive covers only bonds and deposits. It can be sidestepped by bundling the assets into a fund or by booking them at an offshore centre outside Europe. The real growth areas for private banking are in any case farther afield, in Asia and eastern Europe. A new Baer office in Jakarta will be followed by others in Cairo and Istanbul.

The smaller banks have a particular incentive to fight for the model. Michel Habib, a professor of banking at Zurich University, has calculated the value of bank secrecy from the impact of news that it might be abolished on the share price of listed Swiss banks. Answer: 8-13% of their market capitalisation for the smaller banks, but very little for UBS or Credit Suisse (which on July 24th reported decent results and is also hiring staff). Swiss banking secrecy has been under pressure for 15 years and will come under more, says Mr Widmer, but the model is sound. Polls suggest that 81% of the Swiss oppose abolition. Whatever the Americans say.

**Australian finance**

# Down under

Jul 24th 2008 | PERTH
From The Economist print edition

**The air goes out of one of the last remaining booms**

Reuters

Digging themselves a big hole

IN THE early 1990s the mining town of Newman in Western Australia was in a deep slump. Its population had dwindled to 3,000 from a peak of 15,000 in the 1970s. Thanks to extraordinary demand (and prices) for commodities, primarily from China, migration has since been reversed. The population is nearing 11,000 and no tour of the local streets is complete without pausing at a home that was recently sold for A$800,000 ($770,000), having fetched A$80,000 just a few years ago.

The region is still thirsting for people. There are acute shortages of diesel-engine mechanics and electricians, as well as cooks and even jackaroos (cowboys). Lorry drivers can earn in excess of A$120,000 a year, plus benefits and vacations. Bringing in more people is tough because the waiting list for the kind of manufactured homes that can be brought in on trailers—the fastest solution to a housing shortage—is more than a year.

Commercial space is in short supply too. Bankers and mining companies have piled into Perth, the financial capital of Western Australia. Rents can exceed those in New York and London, if property is available at all. UBS, a Swiss bank, is working out of a temporary service office.

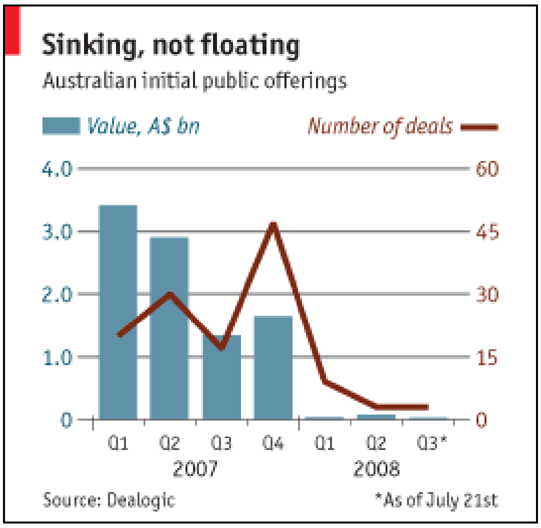
But even in Australia, a country with economic growth, rising corporate profits and stable home prices, there is growing financial distress. Mortgage credit will expand by less than 10% for the first time in 40 years in 2008, reckons Craig Williams, an analyst with Citigroup. The Australian stockmarket is down by 26% since its peak in November. Banks have been hit harder still, although they are not nearly as ravaged as those in America and Europe.

In part, the problems are a result of Australia's split economy. The mining boom has produced wealth in the west while pushing up the Australian dollar, thus undermining the competitiveness of manufacturers in the more populated east. In part, the problems are also a product of a country with a low savings rate whose banks and financial institutions have relied on foreign sources for half of their funding. Thanks to the capital crises in America and Europe, credit is now much tighter. Collectively, these two forces are reshaping Australia's financial sector.

First in the firing-line has been a series of debt-laden financial and real-estate companies. Centro Properties, an acquisitive mall operator, blew up last December. Others are sweating through brutal negotiations with lenders. Allco Finance Group managed to negotiate a loan extension with its bankers on July 1st in return for higher interest charges and a promise to cut its debt. Babcock & Brown, which manages a string of leveraged infrastructure funds, has also had to accept higher interest rates in order to stave off nervous creditors (although it was helped on July 23rd by a solid set of results from Macquarie, a bank with a similar business model).

The banks themselves are also under pressure. Adelaide Bank, which was heavily reliant on wholesale funding, was purchased last year for A$4 billion by Bendigo Bank, which is funded mainly by retail deposits. The proposed A$19 billion acquisition of St George's, the country's fifth-largest bank, by Westpac, its third-largest, partly rests on Westpac's claim that it can fund itself more cheaply.

Even the miners are not immune. In 2000 there were only three companies producing iron ore in Western Australia, says an executive at one of the mining giants. With prices surging and resources in the Pilbara region abundant, by late last year 95 had announced production plans. The oxygen of capital has now thinned dramatically for the newcomers.




Mining companies tapped stockmarkets regularly in 2007, often raising just enough money to pay for a limited period of exploration and drilling. This year the market for initial public offerings has collapsed (see chart). If the financial spigot does not open again, most of the new entrants will disappear. That is not all bad. Tightening credit and a more discriminating equity market may be accomplishing what no business would do on its own: tamping down on supply to moderate the prospect of a future bust. Would that lenders everywhere had done the same.

Economist.com FINANCE & ECONOMICS

Economics focus

# Cheap and cheerful

Jul 24th 2008
From The Economist print edition

**The long-term rise in American inequality may have been smaller than it appeared**

POPULISTS and professors rarely see eye to eye. But on at least one fact of economic life, they agree: wage inequality has increased in America since the mid-1980s. Many studies outline the same broad shifts. Workers at the bottom of the wage scale have seen their incomes fall relative to those at the top. Within the top decile, the super-rich have left the merely well-off far behind.

Indeed increases in national income this decade have been so skewed towards the rich that, allowing for headline inflation, the spending power of a large chunk of the population has apparently stagnated or even declined. Yet this finding is at odds with the impression of spreading prosperity. Increasing numbers of Americans watch DVDs, rely on dishwashers, enjoy air-conditioning and display other signs of increased material wealth. Are the poor really falling so far behind?

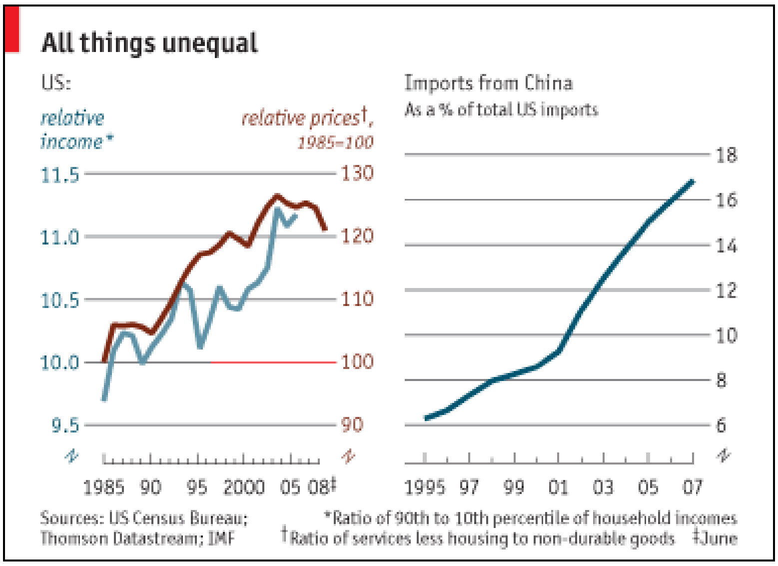
A challenge to the conventional wisdom is set out in a recent research paper* by Christian Broda and John Romalis, both of the University of Chicago's business school. They argue that standard measures of inequality do not reflect differences in the way that the rich and poor spend their money. A person's demand for a particular good or service does not rise in exact proportion to his income. As he grows richer, the pattern of his spending changes, as well as the amount. In particular, high-wage households spend a greater share of their income on services and a smaller share on "non-durable" items, such as food, clothing, footwear and toiletries.

For most of the past three decades, the price of non-durable goods has been falling relative to the price of the services—investment advice, personal care, domestic help and so on—that the rich spend more of their money on. If these differences between the inflation rates faced by the rich and the poor are taken into account, the rise in inequality is reduced and may even vanish.

To back these claims up, the authors constructed price indices for 12 income groups, using official figures and detailed private information on the spending habits of different households. This data set, created by shoppers themselves using in-store scanners, records the type of goods bought by various income groups between 1994 and 2005, as well as the prices paid for them.

The Chicago economists found that the share of non-durable spending for the very poorest households was 12 percentage points higher than for the richest households. Because the price of services rose by more than the price of goods during this period, the inflation rate for the rich was far higher than that for the poor. Rich households also buy dearer versions of the same goods than poor consumers. For each product category—a 16-ounce carton of milk, say—well-off households paid an average of 25% more than poor households. This is not because the rich are gullible shoppers but rather, say the authors, because they tend to buy goods of better quality (such as organic milk), the prices of which are higher and tend to rise more quickly.

These differences matter when considering inequality. One standard measure compares the income of a household just below the top 10% of earners with one just above the bottom 10%. The richer household earned 10.6 times more than the poorer one in 1994; that multiple rose to 11.2 in 2005 (see left-hand chart). But according to the authors, this ratio exaggerates how far the poor have been left behind because it does not account for different inflation rates. A fuller picture would consider shifts in relative prices as well as in relative incomes.




Mr Broda and Mr Romalis reckon that around two-thirds of the increase in the standard inequality gauge since 1994 is offset by the poor's lower inflation rate. They find a similar result when they extend their analysis on spending patterns to price and income figures dating back to 1984. That is not all. Their data on shopping habits show that the range of goods consumed by poor households increased by far more than for rich households. The benefit of this extra variety is not captured in income or inflation, but it can be quantified. If that gain is expressed as an addition to real income, the remaining increase in inequality vanishes.

The authors matched their figures on non-durable spending with equally detailed import data, and discovered that increased trade with China (see right-hand chart) helped lower prices and widen variety. "The poor tend to shop in the aisles of the supermarket where the presence of Chinese goods has increased most," says Mr Broda. These are also the aisles where prices have fallen fastest. The authors reckon that low-cost imports from China alone offset more than a quarter of the measured rise in income inequality since 1994.

## Let them drink organic milk

One obvious rejoinder to these findings is, as Mr Broda concedes, that the recent surge in oil and food prices has hit the poor hardest. Yet to acknowledge this is also to recognise that price changes affect income groups in different ways, depending on how they dole out their money. The run-up in commodity prices has reversed only a small part of the trend of the previous two decades, when the prices of services rose relative to those of non-durable goods. Another possible objection is that if the price of goods that the poor do not habitually consume, but may aspire to, goes up, many will still think them worse off, because those goods are farther out of reach. Nevertheless, if what they typically buy becomes cheaper, they are surely still better off.

The analysis could also be challenged on its own turf. The research focuses on falling goods prices. But the rising price of some services—health care, for example—may partly reflect quality improvements which, if correctly adjusted for, would bring down the inflation rate of the rich. At the very least, however, the research makes a provocative case that income inequality needs to be thought through carefully; and that the increase in Chinese imports offers some clear benefits to low-wage Americans.

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* "Inequality and Prices: Does China Benefit the Poor in America?" March 2008

# Correction: prediction markets

Jul 24th 2008
From The Economist print edition

In an article on prediction markets last week we said that Intrade had brokered $76m of trades this year. That number refered only to bets on the 2008 American election cycle. We said that Intrade's data had been used as a price-discovery tool by certain clients. Intrade points out that “only the user of the data can state [this] with authority”.

**NASA at 50**

# Many happy returns?

Jul 24th 2008
From The Economist print edition

Illustration by Stephen Jeffrey

**America's space agency has reached middle age. Will it now recapture the glory of its youth, or dwindle into decrepitude?**

WHEN asked what he would like as a birthday present for the organisation he runs, Michael Griffin answers: “An understanding that not everything that is worthwhile can be justified in terms of immediate dollars and cents on the balance sheet.” It is an artful reply. But NASA, America’s space agency, did not survive to be 50 years old without being artful. The agency was born on July 29th 1958. It was thrown together in response to *Sputnik*, the first artificial satellite, which was launched by the Soviet Union in October 1957, and it was given extra impetus by the flight of the first cosmonaut, Yuri Gagarin, in April 1961.

That led to the space race, and NASA’s finest hour. John Kennedy, America’s president at the time, responded to Gagarin’s flight by saying that an American should go to the moon by the end of the decade. In doing so, he turned on a tap of dollars and cents that, within five years, was running so fast it gave NASA access to three-quarters of 1% of America’s GDP.

Dr Griffin said of that period that “the moon race was more than exploration for its own sake, and a lot more than an exercise in national pride; it was considered a real-life test of the viability of our open society—a vindication of the very concept of freedom.” This is, perhaps, an exaggeration. Nevertheless, he is right that there was something heroic about the Apollo project. In its way, it was a counterpoint to the counterculture, an escape from the woes of 1960s America staffed not by long-haired hippies but by crew-cut engineers brought up on Buck Rogers and Isaac Asimov. It captured the world’s attention and changed humanity’s view of itself by broadcasting pictures of the Earth as a frail blue dot hanging in a hostile void over an unchanging lunar desert. It thus succeeded brilliantly in demonstrating that not everything that is worthwhile can be justified in terms of immediate dollars and cents on the balance sheet. And then it was over, because the guys with the balance sheets realised that now it had succeeded, there was nowhere for it to go.

## Guiding star

It might have been better for NASA’s reputation if it, too, had closed down at that point, but bureaucracies never do. Like people, their idealistic and enthusiastic youths are eventually overwhelmed by quotidian reality, and they do what they need to to survive. And survive NASA has, through a space-shuttle

programme far more expensive than the “throw-away” rockets it was supposed to replace, through the construction of an orbiting space station that will have consumed $100 billion when it is finished, though it has produced little of scientific value—and also, it must be said, through a programme of unmanned scientific space probes that have, literally, pushed back the frontiers of human understanding.

Dr Griffin is the 11th administrator of this two-headed beast of spectacular profligacy and scientific nous, and perhaps the one with the boldest vision since the early 1970s. For it is he who is trying to realise George Bush’s almost casual announcement, made in 2004, that America should return to the moon, and then go on to Mars. Though it will be expensive, this might be the thing that brings the “manned” and “unmanned” parts of the organisation together.

At the moment, about a third of the agency’s $17 billion budget is spent on unmanned science. There are the missions to Mars and other planets. There are the less spectacular but more vital observations of the Earth from orbit in search of answers to questions about climate, weather and geology. There is the examination of the sun. And there is the scanning of the universe with orbiting telescopes that range across the spectrum and can see almost as far back as the Big Bang itself. If you believe that pure science is a public good that deserves to be paid for out of taxes, most of this is money well spent.

The remaining two-thirds of the budget, however, is consumed by manned space flight—in other words, the shuttle and the space station. The agency often refers to this as “space exploration” but in truth both shuttles and the space station are barely out of the atmosphere. The real exploration of space is being done by the unmanned missions.

The result is a tension between the “manned” and “unmanned” sides of the organisation. There are those in each camp who see little value in the work of the other. In particular, many of the scientists reckon that a lot more useful stuff could be done in space if the manned budget were spent on robot probes. Dr Griffin, however, believes this is naive. He says that without the human-exploration side, the science side would be “a mere shadow of itself today”. During the Apollo decade, he points out, science got not a third, but a sixth of the agency’s budget. Indeed, NASA’s science budget is, he says, almost as big as that of the National Science Foundation, America’s main funder of non-medical research. The implication is that without the fluffier but politically appealing bits of human space exploration, space science would not do so well.

That is a nice, almost Machiavellian argument to keep the scientists on side. But it only works if manned spaceflight can be justified to taxpayers in its own right—not in terms of dollars and cents, of course, but for its inspirational value. Historically, that is questionable. The voyages of discovery to America, with which it is common to compare spaceflight, were entirely about dollars and cents (or, rather, guineas and doubloons). Even truly scientific expeditions, such as that of Captain Cook, were interested in plants that might turn a profit, and were keeping half an eye out for places that might be colonised.

Nevertheless, it is an argument that keeps the dollars and cents rolling in, for Americans, whether inspired or not, do seem reluctant to abandon their manned space programme—as Mr Bush cannily noticed. To replace the shuttle, there will be some shiny new rockets (known as Ares) and a new type of spaceship (known as Orion). These will let Americans visit the space station without having to go cap-in-hand to the Russians for a ride. There will also be a moon lander, and eventually a mission to Mars, both of which will justify a lot more unmanned exploration of those two bodies before any frail human beings dip the toes of their spacesuits in the regolith. NASA, then, may get to relive its youth after all. But, like many middle-agers, it may find that the reality of youthful experience has moved on.

## Space 2.0

In particular, the agency is no longer alone. In one sense, of course, it never was. From the beginning, it was defined by the competition with its Soviet counterpart—and even these days the odd reminder that China, too, plans to send people to the moon might help Dr Griffin swing crucial votes if money looks tight. But technology has moved on since the 1960s, and so have attitudes. A lot of people other than national agencies want to play in space, and NASA is under pressure as a result. In particular, it is under pressure to collaborate—something it is not always terribly good at.

A small illustration of this is the experience of Richard Garriott. Mr Garriott is a successful games designer who is due to fly to the space station in October, as a private tourist. Initially, NASA was sniffy about the whole idea of space tourism—but the Russian space agency, whose budget is rather smaller than NASA’s, made it happen, and now the Americans do at least accept that they will have to share their digs with holiday-makers from time to time. Mr Garriott, however, is not just a holiday-maker. He also hopes to do

some commercially valuable protein-crystallisation experiments, which might help drug companies, when he is in orbit. Just the sort of application, it might be thought, that should be encouraged. NASA, however, wants to charge him $350,000 to send e-mails to his collaborators on Earth—even though the actual cost of doing so is peanuts.

If NASA cannot see that this is silly, it bodes ill for more sophisticated forms of collaboration. Yet such collaborations are almost certainly part of the way forward. In a lecture at the beginning of this year, for instance, Eric Schmidt, Google's chief executive, exhorted NASA to engage more with the outside world by creating “open systems” that others can build on. Google is certainly an interested party. Its planetary-visualisation projects, Google Earth, Google Moon and Google Mars, draw a lot on data collected by NASA. But it would also like to start collecting its own data—to which end it is offering a $30m prize to anyone who can land on the moon and drive a rover over the surface.

And that, perhaps, is a more subtle threat than NASA realises. For Google's various virtual planets are a symptom of the changing nature of vicarious experience. In 1969, television pictures of Neil Armstrong and Buzz Aldrin bouncing around the lunar surface amazed the world. Google and its successors may eventually be able to bring the illusion not just of seeing such experiences (for television pictures are just that—an illusion), but of actually having had them. Social trends are impossible to predict. But it may be that the shock and awe of seeing men and women on Mars will be tempered by the viewer's sense that he has been there and done that himself. And if that is the case, then paying for real manned Mars missions might seem an awful waste of money.

Materials science

# Rags to riches

Jul 24th 2008
From The Economist print edition

**The jaws of ragworms may yield a valuable new material**

WHEN it comes to prospecting for advanced materials, the animal kingdom rarely comes to mind. Yet engineers sometimes find that the forge of evolution produces more impressive substances than those devised by the human brain. Spider-silk, for example, is stronger than steel, and is now finding its way into bullet-proof jackets. And the ridges and furrows of a gecko's ceiling-grasping toes have inspired a glueless adhesive tape.

The newest candidate for translation from the animal to the human world, though, looks even more unlikely. Chris Broomell and Herbert Waite, of the University of California, Santa Barbara, have been studying the jaws of ragworms—which, as careless fishermen who have used them for bait can attest, can give a nasty nip. Dr Broomell and Dr Waite were curious about the composition of the only hard parts of an otherwise squishy animal. In finding out, they may have blundered across the starting point for a new material that is both strong and light.

Ragworms will be familiar to anyone with a childhood interest in sea-shore life. They crawl around beaches and mudflats using tiny structures along the sides of their bodies that work like legs, but are in fact gills. At the front of their bulbous blue heads they have curved fangs that act as jaws. They use these to capture and tear apart their crustacean prey.

In the 1980s ecologists looking for organisms that could be used as indicators of oceanic pollution took a keen interest in ragworms. These ecologists found that the worms' jaws contained a lot of zinc, a metal that is toxic in large doses. Their initial suggestion was that the worms were dumping excess zinc into their jaws, where it could do no harm, as a way of keeping their bodies free of poison. Measuring the zinc in ragworm jaws was thus thought of as a way of monitoring zinc pollution.

That suggestion, however, fell apart when it became clear that the jaws of worms from clean water, too, were stuffed with zinc. The ecologists lost interest. But the engineers were intrigued. Eventually, Dr Broomell and Dr Waite decided to have a look at what was really going on.

First, they checked the strength and durability of the jaws by pressing them with a microscopic diamond probe. This revealed that the material from which they are made is as strong as aluminium and impressively light. It is also quite unusual. Most strong biological structures of this sort—bones, teeth, shells and so on—are highly mineralised. That is, they incorporate crystals of insoluble inorganic salts, most often calcium carbonate or calcium phosphate, in a matrix of protein. This creates a composite material akin to glass-fibre or carbon-fibre. These composites are of interest to engineers in their own right, but when Dr Broomell and Dr Waite stuck ragworm jaws in an X-ray spectroscope they found no sign of mineralisation at all.

That confused them, and they have spent several years trying to find out what is really going on. What they have discovered, as they report in *Biomacromolecules*, is that the zinc is far from being a pollutant. In fact, it is crucial.

## Making wings from worms

Ragworm jaws are made of a mixture of protein and zinc ions. The protein in question contains a lot of an amino acid called histidine. Indeed, it has ten times more histidine than the average protein. Histidine likes to bind tightly to zinc ions. The consequence is that a material composed of histidine-rich proteins and zinc is extremely strong. But, lacking the dense calcium salts of mineralised biological structures, it is also quite light.

Strong and light is a desirable combination in an engineering material—and particularly so in those materials used in aircraft. Dr Broomell and Dr Waite have thus passed their discovery on to a group of scientists at NASA, America's aerospace agency, in order that they can try to take the next steps. These are to see whether worm-jaw protein, or something similar, can be made in bulk, and to try forming it into useful shapes. If both of those prove possible, then an intriguing alternative to traditional composite materials may become available—and worms, in a sense, will fly.

Appetite control

# A sweet result

Jul 24th 2008 | SAN FRANCISCO
From The Economist print edition

**Hormones influence how sensitive taste buds are to sugar**

THAT sweetness is pleasant is no coincidence. Sweet food is at a premium in the wild because the sugars it contains provide valuable calories. But even with sugar there can be too much of a good thing, so it would be no surprise if the body were able to regulate the perception of sweetness as its nutritional needs vary. According to two studies presented to the International Symposium on Olfaction and Taste, held in San Francisco this week, that is exactly what happens. The studies, one on mice and one on people, have identified two hormones that seem to fine-tune the perception of sweetness, and thus regulate the intake of sugar independently of the previously known mechanism of satiation that is located in the brain.

The mouse study was done by Steven Munger, a neurobiologist at the University of Maryland, and his colleagues. They picked a hormone called glucagon-like peptide-1 (GLP-1) that is made by intestinal cells in response to sugar and fat. This hormone is already known to act in the pancreas and the brain, where it helps, respectively, to regulate blood-sugar levels and the feeling of satiation that tells you when to stop eating. Dr Munger, though, found that both GLP-1 and the receptor molecule that picks it up and thus allows it to act are found in taste buds too.

To investigate GLP-1's role in taste, the team used a strain of mice that were genetically engineered to lack GLP-1 receptors. They found that such animals are much less sensitive to sweetness than their un-engineered confrères. Indeed, the mutants were no more interested in a dilute sugar solution (or, indeed, a solution of artificial sweetener) than they were in plain water—though they did respond to concentrated solutions of sweetness. The "wild-type" mice, by contrast, drank significantly more of the sweet solution than they did of the water, even when the sweet solution was dilute. Moreover, the effect was limited to sweetness. The animals' responses to the other four fundamentals of taste—bitterness, sourness, saltiness and "umami" (the flavour of monosodium glutamate)—were unaffected. That suggests, though it does not yet prove, that there is feedback from the gut to regulate the desirability of eating sweet food.

The human study was done by Yuzo Ninomiya, a neuroscientist at Kyushu University, in Japan. He and his colleagues looked at leptin, another hormone that is known to regulate appetite and metabolism. Leptin levels are also known to fluctuate naturally over a 24-hour period, being lowest in the morning and highest at night, at least in people who eat three meals a day.

In their experiments, Dr Ninomiya and his colleagues found that their volunteers were more sensitive to sweetness when their leptin levels were low. As the level of the hormone increased over the course of a day, the threshold for detecting sweetness rose. And when the researchers shifted the pattern of leptin production by changing the number of meals their volunteers ate, the volunteers' sensitivity to sweetness shifted as well, suggesting that it was the hormone rather than merely the time of day that was causing the effect. As in the case of the mice, the humans did not show any changes in their sensitivity to other tastes. However, individuals who had lower leptin levels, and thus more sweet-taste sensitivity before a meal, experienced sharper increases in blood-sugar levels when they had eaten.

Whether either of these results cast light on the perpetual search for pain-free ways of cutting calorie-intake in the modern world of abundant sweetness is not yet clear. But they may, at least, explain why so many people like lashings of sugar on their breakfast cereal.

America and the Middle East

# How they got in, how to get out

Jul 24th 2008
From The Economist print edition

AP

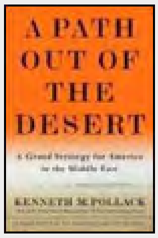
**Foresight and hindsight in the world's bad places**

HOW did America get into its current mess in the Middle East? And how can it get out again? Kenneth Pollack's book is all about the second question but he starts by making a confession relevant to the first. He was a champion of the invasion of Iraq. In 2002, in an influential book entitled "The Threatening Storm", he argued the strategic and moral case for removing Saddam Hussein. Mr Pollack admits now that the intervention a year later was a fiasco, and that after such a disaster the inclination of most Americans is to turn away from the region completely and focus on problems at home. But that is not his view. His latest book is a powerful argument for continued, and perhaps even greater, American involvement in the Middle East.

As befits a former CIA analyst and member of the National Security Council, Mr Pollack builds his case on a hard-headed examination of America's interests in the region. Of these, the most important is oil. If a big percentage of it were suddenly to be removed from the market, the shock of higher prices could on some estimates spark a global recession akin to the Great Depression. American policy, he concludes, should therefore be designed principally to prevent "catastrophic oil disruptions". This means guarding against possibilities such as a revolution in Saudi Arabia or a massive terrorist attack on the oil-supply network.

You might expect a book that starts this way to dwell mainly on how America can maintain military forces in the region. Mr Pollack, however, wants nothing less than "an integrated grand strategy" to secure American interests for the long run. Such a strategy, he admits, may take "many decades", just as it took nearly half a century for America to help Europe and East Asia repair themselves after the second world war. For this grand strategy to work, he says, America will first have to harmonise its separate policies towards Iraq, Iran and Israel. It must also transform the region's politics and economics. That is to say—let no one accuse the chastened Mr Pollack of imperial hubris—America must help along the efforts of the locals, since outsiders "cannot possibly know how to change the society of another people".

A Path Out of the Desert: A Grand Strategy for America in the Middle East
By Kenneth M. Pollack




*Random House; 539 pages; $30*

Buy it at
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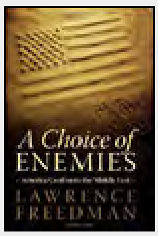
A Choice of Enemies: America Confronts the Middle East
By Lawrence Freedman



But do the people of the Middle East want what America wants for them? Given the growth of political Islam, and the fact that Mr Pollack deems many Arab countries to be on the point of revolution, perhaps not. Nonetheless, a policy of continuing to prop up repressive regimes is like "playing Russian roulette" with foreign policy, as America discovered when the shah's fall turned Iran from staunch friend to implacable foe. Far better, he says, to encourage the region's governments to address popular grievances by embracing political freedom and social equality.

*PublicAffairs; 624 pages; $29.95. Weidenfeld & Nicolson; £20*



This will not be easy, not least because of the hated Bush administration's insincere or at least incompetent pursuit of this very policy. But Arabs tell pollsters that they want both democracy and Islam, and Mr Pollack reckons these two are compatible. Quoting an Egyptian activist who says that what her countrymen need is a job and a voice, he thinks America must find its path out of the desert by helping all Arabs get both.

A simple summary of Mr Pollack's main ideas does scant justice to this thoughtful and informative book. None of its prescriptions is especially novel. The patient promotion of reform, careful containment of the spillover from Iraq, a policy of carrots and sticks (but no military pre-emption) for Iran, building the sinews of a Palestinian state: to all except isolationists and the few surviving neocons, this has become a fairly conventional prospectus for America's post-Iraq policy in the Middle East. But Mr Pollack binds the strands together deftly and imparts a good deal of learning and wisdom along the way.

Sir Lawrence Freedman is less interested in how America should proceed after Iraq and more in working out how it tied itself in such knots in the first place. As an historian, he is more tolerant than Mr Pollack of George Bush, noting that after September 11th this president faced a challenge more complex in some ways than the one Franklin Roosevelt had to deal with after Pearl Harbour in 1941. Whereas Roosevelt knew who the enemy was and what America would have to do, Mr Bush had to choose and name an enemy in a new sort of war without obvious rules, aims or front-lines. He did so, moreover, in a region where no power had exercised a consistently sure touch, and where America had long been torn between an underlying dissatisfaction with the state of affairs and the traditional instinct of a great power to protect the status quo from aggressive states or radical movements.

It is instructive to read these books together. Sir Lawrence's aim is not to lay out a policy. He has no grand unifying theory of the Middle East. His aim is only to render the "most credible" account possible of momentous events such as the fall of the shah, the three wars in the Persian Gulf, invasion and *jihad* in Afghanistan, Jimmy Carter's half-success at peacemaking at Camp David in 1978 and Bill Clinton's failure there two decades later. All these and more formed the treacherous backdrop of American interests and alliances against which Mr Bush had to formulate his response to the attacks on the twin towers. Sir Lawrence's subtle narrative is a marvel of concision, even over more than 500 pages. By the end it cannot but make the reader wonder how realistic it is to advocate, as Mr Pollack does, an "integrated grand strategy" capable of being sustained for decades in such a violent and unpredictable part of the world.

To that Mr Pollack has a simple answer, in the form of a question. What is the alternative? Thanks to its energy needs, America is locked into the region for the foreseeable future, even though the future is so hard to foresee in the unhappy Middle East. Since there are no quick fixes, it had better reconcile itself to the long slog. And although unexpected events will continue to knock it off course, it is more likely to succeed if it can cling to at least some general sense of where it is trying to go.

A Path Out of the Desert: A Grand Strategy for America in the Middle East.
By Kenneth M. Pollack.
*Random House; 539 pages; $30*

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Economist.com BOOKS & ARTS

**Central Asia**

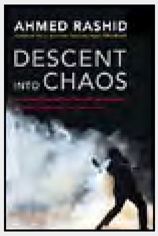
# An opportunity missed

Jul 24th 2008
From The Economist print edition

AHMED RASHID has enjoyed mixed fortunes. His first great adventure—heading off from Cambridge University in 1971 to join a guerrilla war in Baluchistan—did not end well. But in 1979 he was in Kabul when the Soviet Union invaded Afghanistan, and this was a stroke of luck. It gave him a grandstand view of subsequent developments, including the rise of the Taliban, with whom he lived and on whom he reported. Later he turned his inside knowledge into a bestseller on the movement. Since then this Pakistani journalist who lives in Lahore has been one of the world's pre-eminent commentators on the rise of militant Islam in Central Asia, with exceptional first-hand sources.

This background explains both the strengths and weaknesses of his latest book, which sets out to explain what he considers to have been America's missed opportunity in Central Asia after its quick victory against the Taliban late in 2001. The people of the region greeted the superpower's arrival with understandable trepidation. But at the same time, Mr Rashid argues, the Americans generated enormous expectations of change. A sustained commitment could have had a transformative impact not only on Afghanistan itself but also on the other post-Soviet "Stans" of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. This opportunity, however, was squandered when George Bush decided instead to veer off into the sands of Iraq, a benighted enterprise which Mr Rashid says—perhaps too glibly—has left American power "shattered", its army "broken", its credibility "in ruins" and the world a more dangerous place.

Descent Into Chaos: The United States and the Failure of Nation Building in Pakistan, Afghanistan, and Central Asia
By Ahmed Rashid




*Viking; 544 pages; $27.95. Allen Lane; £25*

Buy it at
Amazon.com
Amazon.co.uk

Mr Rashid's unique selling point is that he is a details man. He guides the reader around the unlovely Afghan warlords, describes the quarrels inside Afghanistan's new (and failing) government, dissects the illicit opium business, lays bare the malevolent machinations of Pakistan's intelligence services and attempts to describe the struggle for power in the lawless tribal regions between the two countries. For anyone with an interest in this sorry but potentially world-altering tale his book contains invaluable information, packed as it is with facts, names, numbers, anecdote and a fair dose of gossip.

Nonetheless, the book has a weakness. For all his contacts, Mr Rashid is neither an especially gifted storyteller nor the clearest of analysts, which means that in the end he lets the richness of his material overwhelm his narrative. That is no dishonour, given the breadth of the canvas, but in a way it is a missed opportunity of its own. He could have done with some sharper editing. In its absence, this book is needlessly hard work for the non-expert.

Descent Into Chaos: The United States and the Failure of Nation Building in Pakistan, Afghanistan, and Central Asia.
By Ahmed Rashid.
*Viking; 544 pages; $27.95. Allen Lane; £25*

**Haruki Murakami**

# Runner's world

Jul 24th 2008
From The Economist print edition

“EVEN though my legs were working now, the thirteen miles from the thirty-four-mile rest stop to the forty-seventh mile were excruciating.” This description of a 62-mile (100-km) “ultra-marathon” in Hokkaido might suggest that, if not a madman, Haruki Murakami, Japan’s foremost “running novelist”, is a very focused man. It is not the only reference to the author’s single-mindedness in this memoir named after Raymond Carver’s “What We Talk About When We Talk About Love”.

What I Talk About When I Talk About Running
By Haruki Murakami. Translated by Philip Gabriel

*Knopf; 180 pages; $21. Harvill Secker; £9.99*

Buy it at
Amazon.com
Amazon.co.uk

Mr Murakami’s slim new work recounts his two decades of habitual long-distance running, and its effect on his mind, body and ability to write. He describes in detail a few of his 27 marathons and numerous triathlons (trials of running, cycling and swimming), including his first marathon, which he ran alone in Greece, from Athens to Marathon, along a highway strewn with dead dogs; and one of his most recent, in New York. This last event, which almost concludes the book, is its leitmotif. As he trains for the race, Mr Murakami muses on his tragic efforts to outpace ageing, in a doomed bid to reduce his rising race times.

A self-confessed oddball, Mr Murakami is a peculiar memoirist. Much of his book reads like a fitness magazine, with long descriptions of training schedules and diet. Mr Murakami intersperses these with a laconic sort of philosophising, much of it equally banal: “I think I’ve been able to run for 20 years for a simple reason: it suits me.” Then, now and again, he throws in an elaborate metaphor, comparing, for example, his aching muscles to quarrelling constituents of a French revolutionary tribunal.

This shifting register contributes to what is, in the end, a rather puzzling read. A deft technician, Mr Murakami maintains a narrative thrust that would be beyond most contributors to, say, *Runner’s World* magazine, even where his material seems fit for its pages. This begs the thought that some supra-literary device is at hand: Mr Murakami explains his passion for running, preferably while listening to a “Lovin’ Spoonful” album, as a Zen-inspired effort to “acquire a void”. Perhaps his book is part of the same effort?

This seems unlikely. Mr Murakami’s banalities are more likely a reflection of how difficult it can be to translate Japanese into English. Elsewhere, his meditations are more vivid. For example, he describes standing ready to plunge into the Sea of Japan, at the start of a triathlon, and thinking, “what a lame shabby being I am. I feel like everything I’ve done in life has been a total waste.” If his nihilism is not terribly sophisticated either, it is at least dramatic.

Of course, a real nihilist would not run six miles a day—or write a dozen novels and volumes of stories, as Mr Murakami has done. And in crediting his running with this achievement—healthy body, healthy mind, and so forth—he strikes a sunnier note. Mr Murakami is an intriguing man; and so is his book. Nonetheless, readers, even those who themselves like to run, may feel a measure of relief when they reach its finishing-line.

What I Talk About When I Talk About Running.
By Haruki Murakami. Translated by Philip Gabriel.
*Knopf; 180 pages; $21. Harvill Secker; £9.99*

## Madame de Maintenon

# The story of M

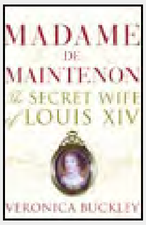
Jul 24th 2008
From The Economist print edition

AS THE Marquise de Maintenon—mistress and for 30-odd years morganatic wife of Louis XIV—lay dying in 1719, in the tranquil setting of Saint-Cyr, a charitable institution she had set up for the education of impoverished young noblewomen, she must have reflected on what surely counts as one of the most extraordinary rags-to-riches stories of all time. She herself had described her life as a miracle.

Born Françoise d'Aubigné in a prison in Niort, in western France, in 1635, she was the unwanted daughter of Constant d'Aubigné, an improvident and unscrupulous minor nobleman. D'Aubigné had been condemned as a traitor and a murderer, and he continued throughout his life to exchange his Protestant faith for the Catholic as circumstances dictated in a period of great religious unrest. Her mother, Jeanne de Cardilhac, a Catholic, was the daughter of d'Aubigné's former jailer.

Veronica Buckley gives a lively account of Françoise's progress from the house of her loving Huguenot paternal aunt and uncle, via the Caribbean with her unloving mother and two brothers, to a convent from which, at the age of 15, she married the 42-year-old Paul Scarron, a horribly disfigured poet and wit. From her mother Françoise had inherited beauty, intelligence, a strong will and iron self-discipline; from her father a good dose of the adventurer.

Madame de Maintenon: The Secret Wife of Louis XIV
By Veronica Buckley




*Bloomsbury; 480 pages; £25. To be published in America by Farrar, Straus and Giroux in October*

Buy it at
Amazon.com
Amazon.co.uk

With these advantages she made her way in her husband's raffish and bohemian salon in the Marais district of Paris, managing to maintain her reputation in spite of a lifelong friendship with Ninon de Lenclos, the most famous courtesan of the time. When in 1669 another friend, the ravishingly beautiful Marquise de Montespan, then Louis XIV's favourite mistress, chose the, by then, widowed Françoise Scarron as governess for her growing brood of royal bastards, she also offered her the opportunity of a lifetime.

As Louis XIV moved from his palace of Saint-Germain to the glories of Versailles, south-west of Paris, Françoise, serious, intelligent and obliging, in stark contrast to the passionate and demanding Marquise de Montespan, increasingly provided the king with a quiet refuge. A title and her own estate of Maintenon, "beautiful and grand", soon followed. Before long, she was appointed second lady–in-waiting to the new dauphine. With the court increasingly under the influence of Bishop Bossuet and other *dévots* (ultra-Catholic priests), Madame de Maintenon set out to ensure her own future by saving the king's soul.

So it was that soon after the queen's death at the age of 45 in 1683, Louis was persuaded that he should no longer live in sin. To the horror of his ministers he married Françoise de Maintenon, by then his mistress of 11 years. Her morganatic marriage to the king was to be a well-kept secret for the next three decades.

Ms Buckley has written an admirably balanced life with a wealth of biographical detail and great sympathy for her subject. This is not always easy to share, particularly when the reader learns that Madame de Maintenon once had a real scaffold set up (though never used) as a means of controlling the girls at Saint-Cyr. But the author's thorough knowledge of the history of France's *grand siècle* is not always matched by a feel for it. An over-domesticated Louis XIV is rarely convincing as the Sun King, and the twists and turns that lead Françoise ever upwards are sometimes recounted with a prosaic inevitability that robs such an extraordinary adventure of real excitement.

Madame de Maintenon: The Secret Wife of Louis XIV.
By Veronica Buckley.
*Bloomsbury; 480 pages; £25. To be published in America by Farrar, Straus and Giroux in October*

**American literary friendships**

# Hers and his

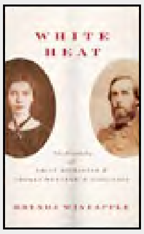
Jul 24th 2008
From The Economist print edition

"BIOGRAPHY first convinces us of the fleeing of the Biographied," wrote Emily Dickinson, America's most famous female poet of the 19th century, uncannily foreseeing how inscrutable a subject she herself would turn out to be.

Rather like Emily Brontë, with whom she identified, Dickinson shrank from contact with the world, scuttling off in her signature white dress as soon as a visitor appeared at the door. Reluctant to share her pared-down, laser-sharp and sometimes terrifyingly inward poems through publication—only seven were printed in her lifetime—she nevertheless relied on an iron core of self-belief, quietly prophesying that posterity would recognise her genius.

Dickinson's externally uneventful life has been chronicled before, but Brenda Wineapple finds a new way in by focusing on her relationship with the man who would eventually help to bring her to the public gaze after her death. Thomas Wentworth Higginson has usually been patronised as a second-rater who bungled the transmission of Dickinson's work by allowing too much editorial tampering, a man whose bourgeois conventionality tried to silence a woman poet's true voice. Yet Ms Wineapple responds to him with compassion and respect, and in doing so makes her book much more than a biography—rather, a sweeping cultural and political history of the lead-up to the American civil war and its aftermath.

White Heat: The Friendship of Emily Dickinson & Thomas Wentworth Higginson
By Brenda Wineapple




*Knopf; 432 pages; $27.95*

Buy it at
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This unusual friendship—which was almost exclusively epistolary—began in 1862 when, in response to an article he had written offering advice to young writers, Higginson received a cream-coloured envelope containing poems and an enquiry: "Are you too deeply occupied to say if my Verse is alive?" Ms Wineapple's bravura critique of this landmark letter, matched by her incisive and readable analysis of the poetry, teases out the ambiguities of Dickinson's strange personality: her simultaneous desire to reveal and conceal herself, her coy dishonesties and blazing truths, her Olympian knowingness and need for reassurance. In the relationship that resulted it was never quite clear who was the mentor, who the disciple, despite the convenient fiction that Dickinson needed a "Preceptor".

The poet was right in supposing Higginson was "occupied"; hers was a life of contemplation, his one of action. Their friendship was the attraction of opposites, and they represent two poles of possible response to their historical moment, in which the issues of race and liberty were pulling the nation apart. Where Dickinson withdrew into the self, Higginson, a passionate abolitionist, tried to realise his ideals, but both were paradoxical individuals.

On the question of slavery, the kind and psychologically gentle Higginson came to believe in the use of violence for political ends, preferring "unwise zeal" to "fastidious inaction". During the civil war, he led a black regiment of freed slaves. In contrast, Dickinson's quiet and passive exterior belied the aggression of her poetic imagination which at times seems almost callous in its self-centredness and in the uncompromising, even hostile, demands it makes on its readers.

Ms Wineapple charts, with wry humour, the battles over the poet after her death, and the attempts of the gushing and ruthless Mabel Todd, who was having an affair with Dickinson's brother, to hijack her legacy and commandeer Higginson to that end. Mrs Todd believed that she alone could understand and possess Dickinson. Ms Wineapple, by contrast, has too much intellectual integrity to pretend to pin the poet down. Instead she achieves what the best literary biography should: a portrait which provides close-up moments of tangible intimacy while allowing the subject to remain ultimately mysterious.

White Heat: The Friendship of Emily Dickinson & Thomas Wentworth Higginson.
By Brenda Wineapple.
*Knopf; 432 pages; $27.95*

**New American fiction**

# A dog in the night-time

Jul 24th 2008
From The Economist print edition

Illustration by Daniel Pudles

Man in the Dark
By Paul Auster

*Henry Holt; 192 pages; $23. Faber and Faber; £14.99*

Buy it at
Amazon.com
Amazon.co.uk

PAUL AUSTER'S new novel is a curious *jeu d'esprit*—though the *jeu* isn't much fun and the *esprit* is pretty gloomy. "I am alone in the dark," it begins, "turning the world around in my head as I struggle through another bout of insomnia, another white night in the great American wilderness." The narrator is August Brill, an elderly book reviewer living out his days and sleepless nights in a house in Vermont that he shares with his daughter, Miriam, and granddaughter, Katya. Brill is kept awake by the memory of his loving but troubled marriage to Sonia, who is now dead. The girls in the house have troubles of their own, too, particularly Katya, whose boyfriend was recently killed in Iraq.

Brill and Katya spend all day watching films. At night, to keep his mind off Sonia, Brill tells himself stories—or rather, one tale in particular, which he develops in several instalments. This second storyline opens up a parallel world. It concerns a young man, Owen Brick, who wakes up one day to find his familiar world strangely unfamiliar and his formerly peaceful country in the middle of a bloody civil war. Brick is able to distinguish between his two worlds, and to move between them. Against his will, he is recruited to assassinate the man responsible for the conflict: an elderly book reviewer living in Vermont who tells himself a war story at night when he can't sleep. Brill puts an end to this slightly goofy parallel-worlds device when he abruptly kills off Brick before Brick does for him.

Meanwhile, the conversations between Brill and Katya turn from films to the ups and downs of Brill's marriage to Sonia. "You're one tough cookie, kid," Katya tells him. "No, I'm not," he replies. "I'm a big soft jelly doughnut." The novel is a bit of a tough-cookie/jelly-doughnut hybrid too. Unfortunately, the author's big political themes—the self-consciously "timely" meditation on an America at odds with itself, and the madness of war—lack crunch, while his family dramas are, as Brill puts it, "all ooze and mush". Mr Auster is a fine writer, but this is not his best work.

Man in the Dark.
By Paul Auster.
*Henry Holt; 192 pages; $23. Faber and Faber; £14.99*

Economist.com PEOPLE OBITUARY

# Bronislaw Geremek

Jul 24th 2008
From The Economist print edition

AFP


**Bronislaw Geremek, a Polish historian and politician, died on July 13th, aged 76**

HAD he been in the West, Bronislaw Geremek said, he would have stayed out of politics. Safe in his enclosing study, with the lovingly filled and refilled pipe and the esoteric books, his fame would have centred round investigations of vagabonds in medieval Europe. Instead, because he was in Poland, he chose struggle. “The intellectual must be engaged,” he insisted. “We are fighting for the very right to think.”

His life mirrored his country’s story, of disaster, reconstruction, freedom and frustration. And he shaped it. Without cultured supporters like Mr Geremek, the communist regime in Poland in the 1950s and 1960s would have been even less credible than it was. Without its wily mastermind, Poland’s opposition in the 1980s would have found it far harder to outwit its oppressors. Without “Bronek”, as his friends knew him, polyglot, tweed-clad and cosmopolitan, Poland’s return to the European family of nations would have been slower and less certain.

It took him some years to become one of the “grains of sand” that clogged the machinery of totalitarian rule. First he abandoned the Communist party, in 1968 after the Soviet invasion of Czechoslovakia; later he taught in Poland’s flourishing intellectual underground. But his moment of glory came in August 1980 when, in his Volvo, he drove to Gdansk to deliver the Warsaw intellectuals’ message of support to the striking workers at the Lenin shipyard. He had been chosen mostly for his car; it was the most reliable motor the eggheads had.

He forged an unlikely but effective alliance with Lech Walesa, the earthy, mercurial leader of the nascent Solidarity trade union. “The most honest, truthful and intelligent person I ever knew,” Mr Walesa said of him, forgetting the anti-intellectual gibes he had chucked at him. Geremekian guile helped win a temporary victory: a few precious months of semi-freedom when Poles could speak, meet and publish, before the military crackdown in December 1981. Mr Geremek was interned, released and arrested again; in prison, he shovelled coal. The authorities confiscated his passport, booted him out of his university job, and prevented him publishing even purely academic work. “There’s one word in the book that they object to,” he told an interviewer. “It’s ‘Geremek’.”

## The winds of history

That name was not the one he had been born with. He was the son of Borys Lewertow, a Jewish businessman and teacher, in a world that was soon destroyed by the Nazis. He referred to those years as

a “closed chapter”, an experience that meant he could never be a writer as he intended, for he would never understand the horrors he had seen. “I saw my world go up in flames before my eyes…the little world of family continuity…of values, principles and rules.” He escaped from the Warsaw ghetto through a hole in the wall; his father died in the camps.

Sheltered by a Catholic Pole who later married his mother, the renamed Bronislaw Geremek survived the war. In 1950, at the height of the Stalinist terror in Poland, he joined the Communist party. He was 18. As a trusted party member (and talented historian), he was allowed to travel to the Sorbonne to study, a rare privilege. When critics later attacked him for this, he said he had been “seduced” by the socialist ideal.

And he more than made up for it. Released from jail in 1983 as communist rule in Europe neared its end, Mr Geremek devoted himself to hastening the regime’s downfall. Other Polish opposition figures could be waffly or provincial; it was hard to see them running the country. Not he. Urbane, brainy and funny, he seemed the embodiment of Poland’s hoped-for future. All that was necessary for the downfall of communism, he used to say, was for the barriers of fear and passivity to fall.

At the “round-table” talks in the spring of 1989, it was Mr Geremek who devised the terms for the communist surrender. The key was elections, free enough for the Solidarity-backed candidates to have a chance of winning. In fact, the result was a rout; and once Poland, the biggest country in eastern Europe, was free, the fall of the Berlin Wall was only a matter of time. The winds of history, Mr Geremek knew, would do the rest.

The country’s position in 1990 still seemed perilous. Would the economy survive the shock of transition? Would Poland ever be ready join the EU, let alone NATO? Mr Geremek was sanguine. And as a senior member of parliament and, from 1997 to 2000, foreign minister, he made things sure, signing the agreement in 1999 that brought Poland into NATO—“anchored for centuries” in Europe, as he hoped. His last job was as a member of the European Parliament, a distinguished and passionate member of an often undistinguished institution. “We have created Europe,” he said. “Now we have to create Europeans.”

His critics saw it all differently. The round-table deal was a canny fix, in which weak-willed opposition figures allowed the cronies of the old regime to maintain their power. That approach prompted the demand in 2006 for all public figures to admit any past collaboration with the communist authorities. Mr Geremek responded, echoing Dreyfus, “*Je refuse*”. The answer of an historian, a European, and a man of moral courage.

# Overview

Jul 24th 2008
From The Economist print edition

The mood among businessmen in the **euro area's** main economies is darkening. Surveys of business confidence in Germany, France and Italy all turned down in June.

The **oil price** dropped below $125 a barrel for the first time in six weeks on July 23rd. The renewed decline was prompted by fresh evidence that high prices were hurting oil demand in America.

Consumer-price inflation in **Australia** rose to 4.5% in the second quarter, the highest rate since 2001. **Canada's** inflation rate jumped from 2.2% in May to 3.1% in June.

Faced with an increase in inflation and the prospect of a sharp economic downturn, the **Bank of England's** monetary-policy committee agonised about how best to respond. The minutes of its meeting on July 9th and 10th revealed that seven of the nine-strong committee voted to leave the bank's benchmark interest rate unchanged at 5%. One member voted for higher rates; another for a reduction. The number of mortgages approved for house purchase fell further in June, according to the British Bankers' Association.

A survey of bank officers in **Japan** revealed a sharp drop in firms' demand for loans in the past three months. Households' demand for loans was broadly unchanged.

**Brazil's** central bank raised its benchmark interest rate by three-quarters of a percentage point, to 13%, on July 23rd. The bank had already raised rates twice this year.

# Output, prices and jobs

Jul 24th 2008
From The Economist print edition

## Output, prices and jobs

% change on year ago

| | Gross domestic product | | | | Industrial production | Consumer prices | | | Unemployment |
|---|---|---|---|---|---|---|---|---|---|
| | latest | qtr* | 2008† | 2009† | latest | latest | year ago | 2008† | rate‡, % |
| **United States** | +2.5 Q1 | +1.0 | +1.4 | +1.3 | +0.3 Jun | +5.0 Jun | +2.7 | +4.2 | 5.5 Jun |
| **Japan** | +1.3 Q1 | +4.0 | +1.4 | +1.3 | +1.1 May | +1.3 May | nil | +1.4 | 4.0 May |
| **China** | +10.1 Q2 | na | +9.8 | +9.0 | +16.0 Jun | +7.1 Jun | +4.4 | +6.5 | 9.5 2007 |
| **Britain** | +2.5 Q1 | +1.1 | +1.6 | +1.2 | −1.6 May | +3.8 Jun§ | +2.4 | +3.4 | 5.2 May†† |
| **Canada** | +1.7 Q1 | −0.3 | +1.3 | +2.0 | −4.5 Apr | +3.1 Jun | +2.2 | +2.0 | 6.2 Jun |
| **Euro area** | +2.1 Q1 | +2.8 | +1.7 | +1.3 | −1.9 May | +4.0 Jun | +1.9 | +3.5 | 7.2 May |
| **Austria** | +2.8 Q1 | +2.8 | +2.3 | +1.9 | +3.0 Apr | +3.9 Jun | +2.0 | +3.0 | 4.1 May |
| **Belgium** | +2.2 Q1 | +1.9 | +1.7 | +1.5 | +8.1 Apr | +5.8 Jun | +1.3 | +3.9 | 10.0 Jun‡‡ |
| **France** | +2.0 Q1 | +1.8 | +1.7 | +1.3 | −1.2 May | +3.6 Jun | +1.2 | +3.2 | 7.4 May |
| **Germany** | +2.6 Q1 | +6.3 | +2.0 | +1.5 | +0.8 May | +3.3 Jun | +1.9 | +2.9 | 7.8 Jun |
| **Greece** | +3.6 Q1 | +4.5 | +2.9 | +3.0 | −6.6 May | +4.9 Jun | +2.6 | +4.2 | 7.7 Apr |
| **Italy** | +0.3 Q1 | +1.9 | +0.4 | +0.8 | −4.1 May | +3.8 Jun | +1.7 | +3.4 | 6.5 Q1 |
| **Netherlands** | +3.3 Q1 | +1.8 | +2.4 | +1.7 | +0.6 May | +2.6 Jun | +1.7 | +2.4 | 4.0 Jun†† |
| **Spain** | +2.7 Q1 | +1.2 | +1.7 | +1.2 | −7.3 May | +5.0 Jun | +2.4 | +4.2 | 9.9 May |
| **Czech Republic** | +5.3 Q1 | +3.6 | +4.7 | +5.4 | +3.4 May | +6.7 Jun | +2.5 | +6.5 | 5.0 Jun |
| **Denmark** | −0.7 Q1 | −2.4 | +1.3 | +1.4 | +7.2 May | +3.8 Jun | +1.4 | +3.1 | 1.7 May |
| **Hungary** | +1.7 Q1 | +1.3 | +0.9 | +4.7 | +5.5 May | +6.7 Jun | +8.6 | +6.5 | 7.7 May†† |
| **Norway** | +0.9 Q1 | +0.8 | +2.6 | +2.3 | +2.8 May | +3.4 Jun | +0.4 | +3.4 | 2.5 Apr*** |
| **Poland** | +6.1 Q1 | na | +5.4 | +4.3 | +7.2 Jun | +4.6 Jun | +2.6 | +4.2 | 9.6 Jun‡‡ |
| **Russia** | +8.5 Q1 | na | +7.5 | +6.8 | +0.9 Jun | +15.1 May | +7.8 | +13.9 | 6.2 Jun‡‡ |
| **Sweden** | +2.2 Q1 | +1.6 | +2.1 | +2.0 | −5.0 May | +4.3 Jun | +1.9 | +3.3 | 8.1 Jun‡‡ |
| **Switzerland** | +3.1 Q1 | +1.3 | +2.0 | +1.5 | +4.4 Q1 | +2.9 Jun | +0.6 | +2.4 | 2.5 Jun |
| **Turkey** | +6.6 Q1 | na | +4.5 | +4.3 | +2.4 May | +10.6 Jun | +8.6 | +11.0 | 10.7 Q1‡‡ |
| **Australia** | +3.6 Q1 | +2.5 | +2.9 | +2.8 | +2.4 Q1 | +4.5 Q2 | +2.1 | +3.7 | 4.2 Jun |
| **Hong Kong** | +6.8 Q1 | +7.4 | +4.7 | +4.4 | −4.4 Q1 | +6.1 Jun | +1.4 | +5.3 | 3.3 Jun†† |
| **India** | +8.8 Q1 | na | +7.7 | +7.1 | +3.8 May | +7.8 May | +6.6 | +7.1 | 7.2 2007 |
| **Indonesia** | +6.3 Q1 | na | +5.9 | +5.7 | +4.4 May | +11.0 Jun | +5.1 | +9.9 | 8.5 Feb |
| **Malaysia** | +7.1 Q1 | na | +5.8 | +5.7 | +2.6 May | +7.7 Jun | +1.4 | +5.2 | 3.6 Q1 |
| **Pakistan** | +5.8 2008** | nil | +3.6 | +4.4 | +4.3 Apr | +21.5 Jun | +7.0 | +17.6 | 5.6 2007 |
| **Singapore** | +6.9 Q1 | +14.6 | +4.8 | +4.9 | −12.8 May | +7.5 Jun | +1.3 | +6.0 | 2.0 Q1 |
| **South Korea** | +5.8 Q1 | +3.3 | +4.5 | +4.3 | +8.3 May | +5.5 Jun | +2.5 | +3.5 | 3.2 Jun |
| **Taiwan** | +6.1 Q1 | na | +4.3 | +4.4 | +5.1 Jun | +5.0 Jun | +0.1 | +3.4 | 3.9 Jun |
| **Thailand** | +6.0 Q1 | +5.9 | +4.8 | +4.5 | +10.5 May | +8.9 Jun | +1.9 | +8.5 | 1.5 Apr |
| **Argentina** | +8.4 Q1 | +2.4 | +6.0 | +4.0 | +6.6 May | +9.3 Jun | +8.8 | +9.7 | 8.4 Q1‡‡ |
| **Brazil** | +5.8 Q1 | +2.9 | +4.6 | +3.4 | +2.4 May | +6.1 Jun | +3.7 | +6.1 | 7.9 May‡‡ |
| **Chile** | +3.0 Q1 | +5.8 | +3.6 | +3.8 | −2.4 May | +9.5 Jun | +3.2 | +7.5 | 8.0 May††‡‡ |
| **Colombia** | +4.1 Q1 | −3.7 | +4.8 | +4.4 | −4.3 May | +7.2 Jun | +6.0 | +6.7 | 10.7 May‡‡ |
| **Mexico** | +2.6 Q1 | +2.1 | +2.3 | +2.5 | −1.2 May | +5.3 Jun | +4.0 | +4.8 | 3.6 Jun‡‡ |
| **Venezuela** | +4.8 Q1 | na | +5.2 | +3.0 | +19.9 Apr | +32.2 Jun | +19.4 | +30.6 | 8.5 Q1‡‡ |
| **Egypt** | +6.9 Q1 | na | +7.1 | +6.7 | +7.5 2007** | +20.2 Jun | +8.5 | +17.1 | 9.0 Q1‡‡ |
| **Israel** | +5.2 Q1 | +5.4 | +3.9 | +3.6 | +7.2 May | +4.8 Jun | −0.7 | +4.2 | 6.3 Q1 |
| **Saudi Arabia** | +3.5 2007 | na | +7.2 | +6.7 | na | +10.4 May | +4.2 | +8.5 | na |
| **South Africa** | +4.0 Q1 | +2.1 | +3.9 | +4.4 | +0.7 May | +11.7 May | +6.9 | +9.6 | 23.0 Sep‡‡ |
| **MORE COUNTRIES** Data for the countries below are not provided in printed editions of *The Economist* | | | | | | | | | |
| **Estonia** | +0.1 Q1 | +7.8 | −0.6 | +2.0 | −6.7 May | +11.4 Jun | +5.8 | +10.5 | 4.1 May |
| **Finland** | +3.1 Q1 | +2.7 | +2.8 | +2.3 | +4.2 May | +4.4 Jun | +2.5 | +3.7 | 6.3 Jun |
| **Iceland** | +1.1 Q1 | −14.0 | nil | +0.8 | +0.4 2007 | +12.7 Jun | +4.0 | +12.0 | 1.1 Jun‡‡ |
| **Ireland** | −1.5 Q1 | −0.9 | −1.3 | −0.4 | +9.2 May | +5.0 Jun | +4.9 | +3.6 | 5.7 Jun |
| **Latvia** | +3.3 Q1 | na | +2.4 | +2.6 | −8.5 May | +17.7 Jun | +8.8 | +15.0 | 5.6 May |
| **Lithuania** | +6.9 Q1 | −0.8 | +5.5 | +4.8 | na | +12.5 Jun | +4.8 | +10.4 | 4.7 Jun‡‡ |
| **Luxembourg** | +2.5 Q1 | +5.3 | +3.1 | +3.0 | +6.4 May | +4.3 Jun | +2.0 | +3.6 | 4.1 May‡‡ |
| **New Zealand** | +0.9 Q1 | −2.3 | +1.4 | +1.7 | +2.4 Q1 | +4.0 Q2 | +2.0 | +3.3 | 3.6 Q1 |
| **Peru** | +7.3 May | na | +7.9 | +6.6 | +4.6 May | +5.7 Jun | +1.6 | +5.1 | 7.4 Jun†† |
| **Philippines** | +5.1 Q1 | +3.0 | +4.8 | +5.7 | +5.2 Apr | +11.4 Jun | +2.3 | +8.3 | 8.0 April‡‡ |
| **Portugal** | +0.9 Q1 | −1.0 | +1.5 | +1.4 | −6.4 May | +3.4 Jun | +2.4 | +2.4 | 7.6 Q1‡‡ |
| **Slovakia** | +8.7 Q1 | na | +7.5 | +5.2 | +4.0 May | +4.6 Jun | +2.5 | +4.2 | 7.4 Jun†‡ |
| **Slovenia** | +5.4 Q1 | na | +4.5 | +4.0 | −0.8 May | +7.0 Jun | +3.6 | +5.5 | 6.5 May‡‡ |

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation rate 4.6% in June. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted.§§New series ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

# *The Economist* commodity-price index

Jul 24th 2008
From The Economist print edition

## *The Economist* commodity-price index

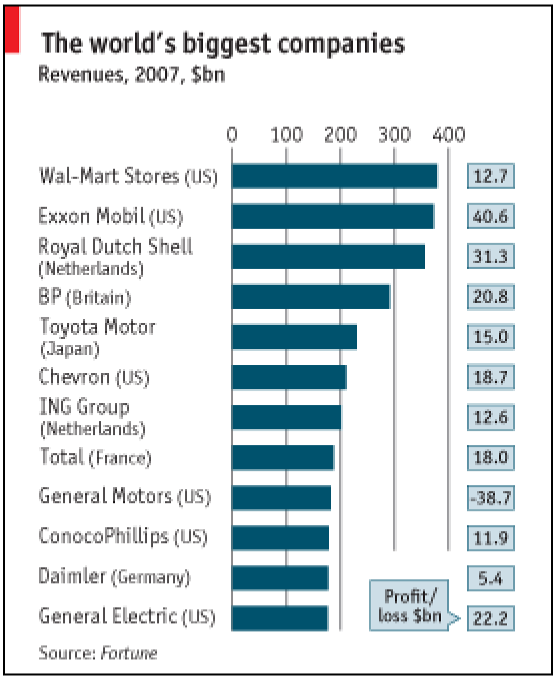
2000=100

| | Jul 15th | Jul 22nd* | % change on one month | % change on one year |
|---|---|---|---|---|
| **Dollar index** | | | | |
| All items | 265.1 | 255.3 | -4.1 | +22.9 |
| Food | 268.1 | 254.8 | -6.4 | +47.9 |
| **Industrials** | | | | |
| All | 261.2 | 255.8 | -1.0 | +1.0 |
| Nfa† | 204.7 | 201.3 | -2.5 | +24.1 |
| Metals | 292.0 | 285.7 | -0.4 | -5.7 |
| **Sterling index** | | | | |
| All items | 200.5 | 193.9 | -5.3 | +26.9 |
| **Euro index** | | | | |
| All items | 153.5 | 149.1 | -5.6 | +7.3 |
| **Gold** | | | | |
| $ per oz | 986.00 | 957.80 | +7.6 | +40.0 |
| **West Texas Intermediate** | | | | |
| $ per barrel | 138.57 | 127.64 | -6.9 | +73.7 |

*Provisional †Non-food agriculturals.

# The world's biggest companies

Jul 24th 2008
From The Economist print edition




Wal-Mart, an American retailer, remains at the top of *Fortune's* Global 500 list, which ranks the world's largest public companies by revenue. Half of the leading dozen revenue-gatherers are oil firms. Their profit margins were fairly fat too: Exxon generated three times as much profit as Wal-Mart from a little less revenue. Three of the top 12 companies are carmakers. Toyota made a profit of $15 billion on revenue of $230 billion. General Motors, once the bellwether of corporate America, took in revenue of $182 billion last year but made a loss of $39 billion. ING, a Dutch banking group, broke into the leading dozen, replacing another ailing Detroit giant, Ford. General Electric fills the remaining spot.

# Trade, exchange rates, budget balances and interest rates

Jul 24th 2008
From The Economist print edition

## Trade, exchange rates, budget balances and interest rates

| | Trade balance* latest 12 months, $bn | Current-account balance latest 12 months, $bn | Current-account balance % of GDP 2008† | Currency units, per $ Jul 23rd | Currency units, per $ year ago | Budget balance % of GDP 2008† | Interest rates, % 3-month latest | Interest rates, % 10-year gov't bonds, latest |
|---|---|---|---|---|---|---|---|---|
| United States | −835.2 May | −710.7 Q1 | −4.9 | – | – | −2.4 | 2.20 | 4.15 |
| Japan | +101.0 May | +215.1 May | +4.1 | 108 | 120 | −2.7 | 0.75 | 1.64 |
| China | +248.7 Jun | +371.8 2007 | +9.3 | 6.83 | 7.56 | 0.4 | 4.39 | 4.67 |
| Britain | −185.4 May | −102.4 Q1 | −4.1 | 0.50 | 0.49 | −3.6 | 5.77 | 5.04 |
| Canada | +45.7 May | +14.5 Q1 | +0.8 | 1.01 | 1.04 | 0.2 | 2.39 | 3.88 |
| Euro area | +12.9 May | −14.2 May | −0.3 | 0.64 | 0.73 | −0.9 | 4.96 | 4.67 |
| Austria | +0.8 Apr | +14.8 Q1 | +3.0 | 0.64 | 0.73 | −0.6 | 4.96 | 4.83 |
| Belgium | +11.6 Apr | −1.1 Mar | +1.6 | 0.64 | 0.73 | −0.5 | 5.03 | 5.01 |
| France | −66.3 May | −41.6 May | −1.6 | 0.64 | 0.73 | −2.9 | 4.96 | 4.82 |
| Germany | +279.0 May | +269.1 May | +6.3 | 0.64 | 0.73 | 1.2 | 4.96 | 4.66 |
| Greece | −61.8 Apr | −48.7 May | −13.9 | 0.64 | 0.73 | −2.6 | 4.96 | 5.22 |
| Italy | −11.8 May | −63.5 May | −2.6 | 0.64 | 0.73 | −2.6 | 4.96 | 5.22 |
| Netherlands | +60.4 May | +50.7 Q1 | +6.0 | 0.64 | 0.73 | 0.7 | 4.96 | 4.83 |
| Spain | −149.4 Apr | −160.6 Apr | −9.5 | 0.64 | 0.73 | −1.1 | 4.96 | 4.95 |
| Czech Republic | +5.0 May | −3.6 May | −2.6 | 15.2 | 20.5 | −2.2 | 4.05 | 4.79 |
| Denmark | +4.8 May | +3.5 May | +0.9 | 4.75 | 5.43 | 3.8 | 5.70 | 4.95 |
| Hungary | +0.5 May | −7.2 Q1 | −3.6 | 149 | 181 | −4.3 | 8.52 | 8.61 |
| Norway | +73.9 Jun | +68.8 Q1 | +17.1 | 5.15 | 5.80 | 17.7 | 6.40 | 5.05 |
| Poland | −17.8 May | −20.9 May | −4.0 | 2.08 | 2.77 | −2.0 | 6.61 | 6.48 |
| Russia | +164.1 May | +109.9 Q2 | +6.0 | 23.4 | 25.5 | 3.6 | 11.00 | 6.67 |
| Sweden | +18.8 May | +40.4 Q1 | +8.1 | 6.03 | 6.73 | 2.4 | 4.26 | 4.45 |
| Switzerland | +15.5 Jun | +91.4 Q1 | +15.1 | 1.04 | 1.21 | 0.9 | 2.78 | 3.31 |
| Turkey | −69.7 May | −43.0 May | −6.4 | 1.20 | 1.25 | −2.7 | 18.92 | 7.08‡ |
| Australia | −21.3 May | −61.4 Q1 | −5.5 | 1.04 | 1.13 | 1.4 | 7.74 | 6.45 |
| Hong Kong | −26.0 May | +26.6 Q1 | +9.0 | 7.80 | 7.82 | 3.0 | 2.29 | 3.61 |
| India | −85.0 May | −17.5 Q1 | −3.0 | 42.1 | 40.4 | −3.4 | 9.08 | 9.73 |
| Indonesia | +38.0 May | +10.9 Q1 | +2.7 | 9,142 | 9,105 | −1.9 | 9.75 | 7.26‡ |
| Malaysia | +35.9 May | +30.6 Q1 | +14.0 | 3.24 | 3.42 | −3.1 | 3.70 | 4.63‡ |
| Pakistan | −20.7 Jun | −10.5 Q1 | −8.6 | 70.8 | 60.4 | −6.7 | 14.15 | 11.92‡ |
| Singapore | +28.5 Jun | +35.8 Q1 | +19.4 | 1.37 | 1.51 | 1.0 | 1.13 | 3.17 |
| South Korea | +1.5 Jun | +1.7 May | −0.8 | 1,014 | 914 | 1.1 | 5.59 | 5.84 |
| Taiwan | +13.8 Jun | +32.2 Q1 | +5.2 | 30.4 | 32.8 | −1.8 | 2.75 | 2.54 |
| Thailand | +7.9 May | +13.2 May | −0.4 | 33.4 | 33.7 | −3.0 | 3.75 | 5.15 |
| Argentina | +11.4 May | +7.9 Q1 | +2.9 | 3.02 | 3.18 | 1.7 | 15.56 | na |
| Brazil | +30.8 Jun | −15.2 May | −1.3 | 1.58 | 1.88 | −1.6 | 12.17 | 6.16‡ |
| Chile | +18.9 Jun | +4.3 Q1 | +0.5 | 494 | 522 | 8.9 | 6.84 | 4.73‡ |
| Colombia | +0.4 Apr | −5.0 Q1 | −2.5 | 1,769 | 1,936 | −1.6 | 9.63 | 5.94‡ |
| Mexico | −7.8 Jun | −4.8 Q1 | −0.8 | 10.0 | 10.9 | −0.1 | 8.01 | 8.93 |
| Venezuela | +30.1 Q1 | +26.7 Q1 | +12.1 | 3.34 | 4.23§ | 1.6 | 17.36 | 6.55‡ |
| Egypt | −22.2 Q1 | −0.1 Q1 | +0.2 | 5.31 | 5.66 | −7.1 | 9.86 | 5.60‡ |
| Israel | −13.4 Jun | +4.4 Q1 | +0.2 | 3.48 | 4.26 | −1.3 | 3.91 | 5.34 |
| Saudi Arabia | +150.8 2007 | +95.0 2007 | +36.9 | 3.75 | 3.75 | 22.3 | 3.77 | na |
| South Africa | −11.0 May | −22.3 Q1 | −8.0 | 7.53 | 6.91 | 0.4 | 12.35 | 9.86 |
| **MORE COUNTRIES** Data for the countries below are not provided in printed editions of *The Economist* | | | | | | | | |
| Estonia | −4.3 Apr | −3.3 May | −10.5 | 9.97 | 11.4 | −0.4 | 6.38 | na |
| Finland | +12.2 May | +9.6 May | +4.7 | 0.64 | 0.73 | 4.5 | 4.89 | 4.84 |
| Iceland | −1.3 Jun | −3.5 Q1 | −14.6 | 79.4 | 60.2 | 2.0 | 15.97 | na |
| Ireland | +38.4 May | −14.7 Q1 | −5.2 | 0.64 | 0.73 | −4.1 | 4.96 | 4.98 |
| Latvia | −6.7 May | −6.0 May | −15.5 | 0.45 | 0.51 | nil | 5.83 | na |
| Lithuania | −7.8 May | −6.0 May | −11.3 | 2.20 | 2.52 | −0.7 | 5.82 | na |
| Luxembourg | −6.5 Apr | +4.9 Q1 | na | 0.64 | 0.73 | 0.6 | 4.96 | na |
| New Zealand | −3.6 May | −10.4 Q1 | −7.1 | 1.33 | 1.25 | 1.2 | 7.70 | 6.18 |
| Peru | +7.8 May | +0.8 Q1 | −1.0 | 2.84 | 3.16 | 2.4 | 5.99 | na |
| Philippines | −7.6 Apr | +5.6 Mar | +2.6 | 44.0 | 45.1 | −0.9 | 5.69 | na |
| Portugal | −30.3 Apr | −26.0 Apr | −8.5 | 0.64 | 0.73 | −2.4 | 4.96 | 5.09 |
| Slovakia | −0.9 May | −4.3 Mar | −4.2 | 19.4 | 24.2 | −2.1 | 3.30 | 5.21 |
| Slovenia | −3.6 Apr | −2.8 Apr | −5.8 | 0.64 | 0.73 | 0.1 | na | na |

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

# Markets

Jul 24th 2008
From The Economist print edition

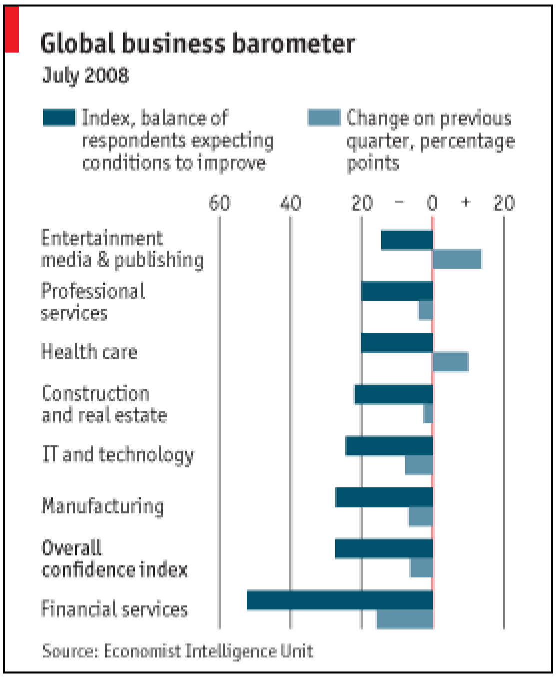
## Markets

| | Index Jul 23rd | % change on one week | % change on Dec 31st 2007 in local currency | % change on Dec 31st 2007 in $ terms |
|---|---|---|---|---|
| United States (DJIA) | 11,632.4 | +3.5 | −12.3 | −12.3 |
| United States (S&P 500) | 1,282.2 | +3.0 | −12.7 | −12.7 |
| United States (NAScomp) | 2,325.9 | +1.8 | −12.3 | −12.3 |
| Japan (Nikkei 225) | 13,312.9 | +4.3 | −13.0 | −9.9 |
| Japan (Topix) | 1,303.4 | +4.3 | −11.7 | −8.5 |
| China (SSEA) | 2,976.9 | +4.9 | −46.1 | −42.3 |
| China (SSEB, $ terms) | 213.7 | +2.3 | −45.4 | −41.6 |
| Britain (FTSE 100) | 5,449.9 | +5.8 | −15.6 | −15.3 |
| Canada (S&P TSX) | 13,512.7 | +0.1 | −2.3 | −4.5 |
| Euro area (FTSE Euro 100) | 1,056.1 | +6.8 | −23.2 | −17.5 |
| Euro area (DJ STOXX 50) | 3,387.5 | +6.7 | −23.0 | −17.3 |
| Austria (ATX) | 3,722.5 | +8.3 | −17.5 | −11.4 |
| Belgium (Bel 20) | 3,144.8 | +8.2 | −23.8 | −18.2 |
| France (CAC 40) | 4,408.7 | +7.2 | −21.5 | −15.7 |
| Germany (DAX)* | 6,536.1 | +6.2 | −19.0 | −13.0 |
| Greece (Athex Comp) | 3,505.7 | +11.1 | −32.3 | −27.3 |
| Italy (S&P/MIB) | 28,841.0 | +6.1 | −25.2 | −19.7 |
| Netherlands (AEX) | 405.4 | +5.6 | −21.4 | −15.6 |
| Spain (Madrid SE) | 1,282.9 | +5.7 | −21.9 | −16.1 |
| Czech Republic (PX) | 1,475.0 | +5.5 | −18.7 | −2.5 |
| Denmark (OMXCB) | 386.4 | +7.6 | −13.9 | −7.6 |
| Hungary (BUX) | 21,625.5 | +6.3 | −17.6 | −4.4 |
| Norway (OSEAX) | 479.7 | +2.1 | −15.8 | −11.3 |
| Poland (WIG) | 40,702.5 | +8.5 | −26.9 | −13.4 |
| Russia (RTS, $ terms) | 2,111.9 | −2.9 | −12.2 | −7.8 |
| Sweden (Aff.Gen) | 271.5 | +6.1 | −20.3 | −14.5 |
| Switzerland (SMI) | 7,058.2 | +7.2 | −16.8 | −9.3 |
| Turkey (ISE) | 38,555.6 | +6.0 | −30.6 | −32.4 |
| Australia (All Ord.) | 5,161.6 | +4.3 | −19.6 | −11.8 |
| Hong Kong (Hang Seng) | 23,134.6 | +9.0 | −16.8 | −16.8 |
| India (BSE) | 14,942.3 | +18.8 | −26.3 | −31.0 |
| Indonesia (JSX) | 2,225.8 | +0.3 | −18.9 | −16.7 |
| Malaysia (KLSE) | 1,139.4 | +1.8 | −21.1 | −19.5 |
| Pakistan (KSE) | 11,018.5 | +5.0 | −21.7 | −31.9 |
| Singapore (STI) | 2,979.0 | +5.1 | −14.0 | −9.4 |
| South Korea (KOSPI) | 1,591.8 | +5.6 | −16.1 | −22.5 |
| Taiwan (TWI) | 7,309.8 | +8.9 | −14.1 | −8.3 |
| Thailand (SET) | 694.1 | +3.6 | −19.1 | −18.4 |
| Argentina (MERV) | 1,940.7 | +3.4 | −9.8 | −6.0 |
| Brazil (BVSP) | 59,420.0 | −4.2 | −7.0 | +4.6 |
| Chile (IGPA) | 13,976.9 | +4.8 | −0.7 | +0.1 |
| Colombia (IGBC) | 8,801.6 | +0.9 | −17.7 | −6.1 |
| Mexico (IPC) | 27,644.8 | −1.2 | −6.4 | +1.7 |
| Venezuela (IBC) | 39,062.0 | nil | +3.1 | −33.7 |
| Egypt (Case 30) | 9,302.4 | −1.5 | −11.2 | −7.7 |
| Israel (TA-100) | 949.7 | +6.5 | −17.7 | −9.1 |
| Saudi Arabia (Tadawul) | 9,080.9 | +2.5 | −17.7 | −17.7 |
| South Africa (JSE AS) | 27,373.8 | +1.8 | −5.5 | −14.2 |
| Europe (FTSEurofirst 300) | 1,189.0 | +6.5 | −21.1 | −15.3 |
| World, dev'd (MSCI) | 1,385.4 | +3.6 | −12.8 | −12.8 |
| Emerging markets (MSCI) | 1,049.9 | +3.3 | −15.7 | −15.7 |
| World, all (MSCI) | 350.2 | +3.6 | −13.1 | −13.1 |
| World bonds (Citigroup) | 762.2 | −2.0 | +4.4 | +4.4 |
| EMBI+ (JPMorgan) | 435.0 | +0.8 | +0.3 | +0.3 |
| Hedge funds (HFRX) | 1,282.7 | −0.5 | −3.5 | −3.5 |
| Volatility, US (VIX) | 21.3 | 25.1 | 22.5 | (levels) |
| CDSs, Eur (iTRAXX)† | 91.3 | −10.7 | +80.4 | +93.7 |
| CDSs, N Am (CDX)† | 137.9 | −5.6 | +57.4 | +57.4 |
| Carbon trading (EU ETS) € | 24.8 | −0.7 | +11.3 | +19.5 |

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank

# Global business barometer

Jul 24th 2008
From The Economist print edition




Business confidence is falling but at a less alarming rate than previously, according to the latest global business barometer, a quarterly survey of more than 1,000 executives conducted for *The Economist* by the Economist Intelligence Unit, its sister company. The overall confidence index, which measures the balance of bosses who think business will pick up over those who expect it to worsen, was still fairly negative. Yet most industries saw only a small decline in confidence, and the mood of executives in entertainment, media and publishing, and in health care has lifted a little. North and Latin America were the only regions to see an overall improvement in executive mood in the past three months.